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TRADE IN SERVICES AND TRADE IN HIGH TECHNOLOGY PRODUCTS

ORIGINAL
COMPLETED

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

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TRADE IN SERVICES AND TRADE IN HIGH TECHNOLOGY PRODUCTS

MONDAY, MAY 24, 1982

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C.

The subcommittee met at 2 p.m., pursuant to notice, in Room 2118, Rayburn House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[Press release announcing the hearing follows:]

[Subcommittee on Trade press release No. 24, Wednesday, May 12, 1982]

Hon. Sam M. Gibbons (D-Fla.), Chairman, Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Announces Hearings on Trade in Services and Trade in High Technology Products

The Honorable Sam M. Gibbons, (D-Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a public hearing on trade in services and trade in high technology products. The hearing will be held on Monday, May 24, in room 2118 Rayburn House Office Building, beginning at 2:00 p.m.

Both trade in the services sector and in high technology products are particularly important to the United States. In both areas U.S. producers and suppliers are strong, innovative, and highly competitive internationally. The two sectors make important contributions to our gross national product and, through exports, add to the U.S. balance of payments position. However, U.S. international economic policy has until recently not directly addressed the unique policy issues associated with trade in services and high technology products. U.S. data on domestic activities and on international trade, particularly in the services sector, are inadequate. Foreign government policies and foreign market conditions for trade have not been adequately studied. Further, domestic trade laws and international trading rules have not been reviewed to determine if they adequately cover problems that arise in services and high technology trade.

The purpose of the hearing will be to explore ways to improve trade data and information on these two sectors, policies which would promote U.S. exports of services and high technology goods, problems U.S. exporters are facing in foreign markets, and ways in which world markets can be further opened to international trade. Testimony should address the following subjects as well as provisions of pending legislation on services and high technology trade (H.R. 5383 and H.R. 5579):

Foreign government measures or policies which distort trade and investment flows in the services and high technology sectors.

The impact of such measures on U.S. services and high technology industries.

The adequacy of existing U.S. laws to deal with trade and investment problems in the services and high technology sectors.

The applicability of current international rules and agreements to international trade and investment in the services and high technology sectors.

The advisability of negotiating new international rules for these sectors, and goals the United States should seek to attain through a negotiating initiative.

The need for improving data collection with respect to international trade in services.

The need for improved monitoring capabilities in these sectors in order to facilitate more accurate analyses of current international trade flows and assessments of the openness of foreign markets.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Requests to be heard must be received by telephone to Harriett Lawler [telephone (202) 225-3627] by close of business, Wednesday, May 19. The request should be followed by a formal written request addressed to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the subcommittee are required to submit 75 copies of their prepared statements to the full Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances.

Each statement to be presented to the Subcommittee or any written statement submitted for the record must contain the following information:

1. The name, full address, and capacity in which the witness will appear (as well as a telephone number where he or his designated representative may be reached);
2. A list of any clients or persons, or any organization for whom the witness appears; and
3. A topical outline or summary of the comments and recommendations in the full statement.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting a written statement in lieu of a personal appearance should submit at least six (6) copies of their statement by the close of business Tuesday, June 1, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may submit 50 additional copies for this purpose if provided to the Committee during the course of the public hearing.

Chairman GIBBONS. As all of you know, this is a meeting of the Trade Subcommittee of the Ways and Means Committee.

We have a lot of important debate going on over on the House floor.

We have such a large attendance today we had to use this room for this hearing. The Armed Services Committee has asked us to vacate the room by 5 p.m., because they have to have a secure briefing in here tomorrow, and this room must be swept in an electronic sense.

This is a hearing on a very important trade issue, trade in services and trade in high-technology products.

Both of these sectors are very important to the United States. U.S. producers and suppliers of services and high-technology products are highly innovative and currently lead the world in competition in these sectors.

Despite the significant contribution of the services and high-technology sectors to our domestic economy and our balance-of-payment position, the U.S. trade policy will have to focus on these issues if we want to maintain this lead.

As those of us involved in trade policy issues have begun to look forward to the future, it has become increasingly clear that trade in services and trade in high-technology products are an issue that can only gain in importance as time goes by. Therefore, we should begin to address them now.

These hearings will have two purposes.

The first will be to discuss the broad variety of trade issues that are currently affecting U.S. trade in services and high technology.

For example, the subcommittee would like to discuss ways to improve U.S. data and information on U.S. services and high-technology industries.

Second, and more specifically, we would like to discuss the provisions of pending legislation in these areas of trade and services in high technology.

In the services area, I introduced the Trade in Services Act of 1982, which is H.R. 5383 on January 28 to stimulate discussion in this area. There are other bills covering trade and services as well, including a bill introduced by Congressman Stark and by Congressman Florio, who I am pleased to have with us here today.

I joined Congressman Shannon last week in introducing H.R. 6433, the High Technology Trade Act of 1982. That bill replaces a bill that I introduced earlier, and was cosponsored by Congressman Shannon and Congressman Don Edwards, and others, particularly in the California delegation.

I was first going to welcome Congressman Stark, but he is perhaps still over on the floor. Don Edwards, you were also listed as one of our first witnesses. If you would like to come forward, we will hear you now. We will hear your colleagues when they are able to arrive.

STATEMENT OF HON. DON EDWARDS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. **Edwards**. Thank you very much, Mr. Chairman. I would like permission to insert my prepared remarks in the record.

Chairman **Gibbons**. Yes, sir, Mr. Edwards.

Mr. **Edwards**. I want to thank you and the other members of the committee very much for moving ahead with this important series of hearings. It is really terribly important, not only to California, but to the Nation as a whole, that some of the problems that we face, and especially our high-technology industry faces, must be addressed and redressed to a certain extent. To show the importance of how the California delegation feels about these bills, the predecessor to the two bills that you are addressing today, H.R. 5579 was cosponsored by all of the 22 members of the Democratic delegation of California.

You have some wonderful witnesses today, and, again, we are all very pleased that you are moving ahead.

It is very, very important, and I thank you.

[Mr. Edwards' prepared statement follows:]

Statement of Hon. Don Edwards, a Representative in Congress From the State of California

Mr. Chairman, I appreciate this opportunity to testify before the Trade Subcommittee today on H.R. 6433 and H.R. 6436, the High Technology Trade Acts of 1982. I want to thank the two gentlemen, Mr. Stark and Mr. Shannon, both members of the Ways and Means Committee, for their leadership in seeing that legislation which addresses the problem of unfair competition in semiconductor and electronic equipment trade is now being examined.

On December 21, 1981, this subcommittee filed a report entitled "The Japanese Challenge in High Technology." It noted that the Japanese attitude toward high technology shows that they are counting on these products to "dominate the world trade and economy for the rest of the century." Your report goes on to note that if the United States does not respond to the current trends in high technology product investments by foreign competitors, by increasing our competitive posture, we will be surpassed in the international marketplace.

On March 24, 1982, U.S. Trade Representative Bill Brock testified before the Senate indicating that more effort should be directed toward multilateral consideration of high technology trade, noting that it would be a priority item at the GATT Ministerial Conference. Mr. Brock then went on to ask the Congress to examine the desirability of Presidential authority to negotiate the reduction of barriers of trade in high technology goods, including the reduction of tariffs.

It is most timely that this subcommittee would meet today to examine the trade relations of our high technology community.

As one of the Congressmen from Silicon Valley in California, I applaud this event. This legislation is very important to California, the center of our country's high technology industry. Semiconductors and computers will have an important role in world trade for the rest of the century.

H.R. 6433, and H.R. 6436 would both establish as a U.S. trade policy objective the importance of obtaining substantially equivalent competitive opportunities for U.S. high technology exports and investments. This legislation is essential for the industry and our country. The aim of these bills is to increase free trade and increase competition. These measures have my enthusiastic support.

You will hear from many experts in the semiconductor industry today, regarding the many problems which they face in foreign nations as they attempt to establish plants and a marketplace abroad. I hope that you will act swiftly and report to the House floor a bill which will help the U.S. gain parity in world semiconductor trade.

Thank you.

Chairman GIBBONS. Well, the people of California, because of their innovative nature, and because of their tremendous emphasis upon education, are leaders in the area of high technology, and in the trade area, the trade-in-services area. Your interest in this subject speaks very well for your delegation and for the State of California.

Mr. EDWARDS. Thank you, Mr. Chairman.

Yes, we have been ahead in certain areas, but we want to stay ahead, because when we stay ahead, then America stays ahead.

There are some problems, and you understand the problems. These witnesses will understand them, and it is really very important that they be looked at.

Chairman GIBBONS. Thank you, sir.

Our next witness is Mr. James J. Florio, who is a Member of Congress from the State of New Jersey.

STATEMENT OF HON. JAMES J. FLORIO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. FLORIO. I am very pleased to be here and would likewise ask permission to insert my full comments into the record, and I will, therefore, spare you the first six pages, which talk about the importance of the service industry to our economy, and particularly the service industry exporting opportunities that are available to us.

Chairman GIBBONS. Your entire statement will be in the record.

Mr. FLORIO. I would like to emphasize the balance of my statement, which expresses my interest in going forward in an orderly way in this area, that our committees, your subcommittee, as well as my mine, share jurisdiction along with the Foreign Affairs Committee having principal responsibility for the two bills that have been introduced in the House to address foreign trade barriers to the U.S. exports.

As the authors of these two bills, you and I can appreciate the urgent need for congressional action in this area. Currently, there is no internationally agreed upon set of rules under which trade-in-services can take place. An agreement, reflecting such a set of rules, is urgently needed and should be given the highest priority by our country's representatives to the GATT ministerial meeting in November.

At this meeting, the GATT ministers will develop an agenda of trade problems to be negotiated during the 1980s. Nothing on that agenda should receive higher priority than the negotiation of an agreement covering services.

Support for negotiating a services agreement, however, will not be won easily from our GATT trading partners. With the exception of the United Kingdom and Sweden, which, like the United States, have strong service export industries, other GATT member countries are predominantly service importers, not exporters. Many of these countries, therefore, are much more concerned about protecting their own service industries than they are about eliminating barriers to services which other countries export.

Amendments I have drafted to my trade-in-services bill would address this problem by making it clear to our trading partners that their service industries may in the future be denied access to our market if they deny our service firms access to their markets. Under my proposal, the President would have the authority to deny or limit any foreign service firms access to the U.S. market, if he determines that the foreign country restricts U.S. access to its market on a discriminatory or unjustifiable basis and that such practice harms our overall economy.

Mr. Chairman, I feel strongly that Congress must give the President this authority for two very important reasons. First, in the absence of an international agreement which would equalize the rules which govern trade in services, it is essential that the President have the ability to equalize the relationships under which we conduct trade in services with individual nations.

Second, our GATT partners will never take seriously our efforts to negotiate an international services agreement unless they perceive that they, too, will benefit from such an agreement. If other nations understand that discrimination against our service industries may cause their developing service industries to be shut out of the U.S. market, then they not only have a reason to treat our service industries fairly, but a reason to negotiate an agreement that would give every nation increased opportunities for service exports.

Mr. Chairman, in order for this message to be carried to our GATT partners, it will be necessary for Congress to pass legislation this year. Although it is growing late in this session of Congress, I believe we can accomplish this task.

The bills you and I have introduced differ in some respects. More importantly, however, they both stem from three important principles, upon which you, I, and the administration can agree.

First, development of a work program for the negotiation of a GATT agreement covering services should be a high priority of our representatives at the GATT ministerial meeting this November. Without such an agreement, there can be no international understanding of what unjustifiable, discriminatory trade barriers are. Neither can there be any international procedure for resolving disputes arising from trade in services.

Second, much better data and information is needed if we are to understand how U.S. service firms operate abroad and how foreign service firms operate in our own country. We need to develop and to maintain an inventory of barriers to trade in services on a country-by-country basis. In this regard, I am encouraged by business' recognition that the collection of additional data on services is necessary and not simply a burden to be endured.

The fact is that currently even our aggregate figures on services are suspect. For example, in 1980, official Government reports indicated that U.S. service firms earned $30 billion from exports. An independent firm under contract to the Office of the United States Trade Representative, on the other hand, estimated that service exports in that year probably earned more than $60 billion.

So there is some fundamental difference in the information collecting process.

Clearly, we must know more about service exports before we can begin to understand and to deal with the problems they confront.

Third, and most importantly, the President must have authority to take action against foreign service firms that are regulated by independent regulatory agencies. The simple fact is that most service industries are regulated by independent agencies such as the Federal Communications Commission, the Interstate Commerce Commission, and the Federal Reserve Board. These agencies are, by definition, independent—outside the reach of the President.

In some respects, that is good. In others, it may very well not be good.

Yet, the President, rather than independent agencies, is responsible for our country's trade policy. It seems clear, therefore, that the President should be empowered to take action against foreign service firms on trade grounds. Such authority would in no way interfere with the jurisdiction independent agencies would have over foreign service firms on non-trade-related matters. Instead, it would merely give the President the ability to insure that foreign service firms are granted the same opportunity in the U.S. market as our own service firms enjoy in foreign markets.

Until an international agreement on services is negotiated, granting the President this authority is absolutely necessary in order to promote fair trade in services.

Mr. Chairman, these points, on which I believe there is general agreement, are the principal elements of the legislation we have introduced. My subcommittee will make up my trade in services bill, H.R. 5519, on June 15. At that time, I will offer amendments which will make the legislation reflect more perfectly the policy I have outlined. I will be happy to share these amendments with you.

Again, Mr. Chairman, I want to thank you for this opportunity to testify before your subcommittee. I look forward to working with you in passing this important legislation this year.

Your staff has been very helpful to us, and I am looking forward to a very cooperative relationship as we go forward in an effort to have legislation this year to provide some reinforcement to our representatives at the November meeting, so we can ultimately have an international agreement.

[The prepared statement follows:]

STATEMENT OF HON. JAMES J. FLORIO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY, AND CHAIRMAN OF THE SUBCOMMITTEE ON COMMERCE, TRANSPORTATION, AND TOURISM OF THE COMMITTEE ON ENERGY AND COMMERCE

Mr. Chairman, I want to thank you for giving me this opportunity to testify on the importance of service industries to our economy and the special problems these industries confront in international trade. It is indeed a pleasure to be here.

At the outset, Mr. Chairman, I would like to take a few moments to talk about our economy generally and the role of service industries in it. We are all keenly aware of the havoc presently occurring in our economy as a result of record high interest rates and this, the longest of two recessions in as many years.

The econometric forecasting firm of Data Resources, Inc. now says the probability of continuing "deep recession or aborted attempts at economic recovery" is 40 percent, 5 percent higher than it was just 4 months ago. And, the prime rate which is now 16.5 percent remains far higher than anyone had projected earlier.

These pressures are killing consumer demand and forcing business to scale back in every area. United States industry is now producing at only about 71 percent of full capacity. Unemployment in April reached a postwar record high of 9.4 percent.

With demand down and interest rates high, American businesses today face impossible cash flow problems. Data Resources, Inc. estimates that the ratio of business debt burden to cash flow is currently 45 percent and still growing.

Last week the Department of Commerce announced that in the first quarter of 1982, inflation-adjusted, before-tax profits of American business fell 15.6 percent, the second largest plunge since the Department began keeping these statistics. Since the current recession began last July, business profits have fallen 23 percent, three times as great as the total decline in all of 1981.

In the first quarter of this year, the gross national product contracted at a revised annual rate of 4.3 percent, far greater than previously had been predicted. At the same time, wages and salaries of American workers declined 2.7 percent in April following a drop of 2.4 percent in March.

Finally, Dun and Bradstreet reports that as of the first week of May a total of 8,129 businesses have failed in the United States during 1982—50 percent more than in the comparable period of 1981. A larger number of businesses failed during this period than during any comparable period since the 1930's.

Not only is the condition of our economy extremely bad, but efforts to turn it around have failed miserably. The Reagan administration's huge tax cut of last year seems to have done more to keep interest rates high and money tight than to spur business investment.

Totally contrary to the administration's predictions, the bond market has responded to President Reagan's tax cut by keeping long-term loan rates at record high levels. As a result, business cannot afford the capital it would need to expand and modernize in order to become eligible for the depreciation and tax credit benefits contained in the law passed last year. Furthermore, with the debt burden of American business already at extremely high levels, it is unclear whether business expansion and modernization is a realistic expectation even if interest rates were lower.

Rather than trying to force the economy to perform according to some preconceived set of assumptions, we should instead look for what is strong in our economy and adapt our policies to promote those strengths. For example, it is a matter of simple historical fact that our economy is evolving into a predominately service-based economy.

Today, about 65 percent of our gross national product is attributable to the service sector, and about 7 out of every 10 Americans work in service industries. Transportation, banking, insurance, construction and engineering, lodging and other service industries have become the principal source of American economic growth and activity.

There are also indications that the recession may be affecting service industries less harshly than other sectors of the economy. For example, unemployment in the transportation and financial service industries was 26 percent less than April's unemployment level for all industries. Likewise, when wages and earnings of manufacturing workers fell in the last quarter of 1981, service workers' earnings were on the rise.

Furthermore, services have become an increasingly important component of the U.S. balance of payments. While the United States has suffered a deficit in merchandise trade in all but two of the last 12 years, the surplus in the services account has grown steadily. Due to service exports, the U.S. balance of payments in goods and services has been in surplus for the last 2 years.

Mr. Chairman, in 1979 alone world trade in services grew 24.2 percent, and the United States led all other nations in service exports. But just as American service firms have increased their activities abroad, many of our trading partners have moved to close their markets to our service companies.

The future health of our country's service industries, therefore, should by no means be taken for granted. As a result, I believe it is essential that Congress take action on services legislation now.

Mr. Chairman, you and I share not only a common interest in the problems of service industries and service industry exports but also common legislative jurisdiction. Our two subcommittees, along with the Foreign Affairs Committee, have principal responsibility for the two bills that have been introduced in the House to address the foreign trade barriers to U.S. service exports.

As the authors of these two bills, you and I can appreciate the urgent need for congressional action in this area. Currently, there is no internationally agreed upon set of rules under which trade in services can take place. An agreement, reflecting such a set of rules, is urgently needed and should be given the highest priority by our country's representatives to the GATT ministerial meeting in November.

At this meeting the GATT Ministers will develop an agenda of trade problems to be negotiated during the 1980's. Nothing on that agenda should receive higher priority than the negotiation of an agreement covering services.

Support for negotiating a services agreement, however, will not be won easily from our GATT trading partners. With the exception of the United Kingdom and Sweden, which like the United States have strong service export industries, other GATT member countries are predominantly service importers, not exporters. Many of these countries, therefore, are much more concerned about protecting their own service industries than they are about eliminating barriers to services which other countries export.

Amendments I have drafted to my trade in services bill would address this problem by making it clear to our trading partners that their service industries may in the future be denied access to our market if they deny our service firms access to their markets. Under my proposal, the President would have the authority to deny or limit any foreign service firms access to the U.S. market, if he determines that the foreign country restricts U.S. access to its market on a discriminatory or unjustifiable basis and that such practice harms our overall economy.

Mr. Chairman, I feel strongly that Congress must give the President this authority for two very important reasons. First, in the absence of an international agreement which would equalize the rules which govern trade in services, it is essential that the President have the ability to equalize the relationships under which we conduct trade in services with individual nations.

Second, our GATT partners will never take seriously our efforts to negotiate an international services agreement unless they perceive that they too will benefit from such an agreement. If other nations understand that discrimination against our service industries may cause their developing service industries to be shut out of the U.S. market, then they not only have a reason to treat our service industries fairly, but a reason to negotiate an agreement that would give every nation increased opportunities for service exports.

Mr. Chairman, in order for this message to be carried to our GATT partners, it will be necessary for Congress to pass legislation this year. Although it is growing late in this session of Congress, I believe we can accomplish this task.

The bills you and I have introduced differ in some respects. More importantly, however, they both stem from three important principles, upon which you, I and the administration can agree.

First, development of a work program for the negotiation of a GATT agreement covering services should be a high priority of our representatives at the GATT ministerial meeting this November. Without such an agreement, there can be no international understanding of what unjustifiable, discriminatory trade barriers are. Neither can there be any international procedure for resolving disputes arising from trade in services.

Second, much better data and information is needed if we are to understand how U.S. service firms operate abroad and how foreign service firms operate in our own country. We need to develop and to maintain an inventory of barriers to trade in services on a country-by-country basis. In this regard, I am encouraged by business' recognition that the collection of additional data on services is necessary and not simply a burden to be endured.

The fact is that currently even our aggregate figures on services are suspect. For example, in 1980 official Government reports indicated that U.S. service firms earned $30 billion from exports. An independent firm under contract to the office of the U.S. Trade Representative, on the other hand, estimated that service exports in that year probably earned more than $60 billion.

Clearly, we must know more about service exports before we can begin to understand and to deal with the problems they confront.

Third, and most importantly, the President must have authority to take action against foreign service firms that are regulated by independent regulatory agencies. The simple fact is that most service industries are regulated by independent agencies such as the Federal Communications Commission, the Interstate Commerce Commission and the Federal Reserve Board. These agencies are by definition independent—outside the reach of the President.

Yet, the President rather than independent agencies is responsible for our country's trade policy. It seems clear, therefore, that the President should be empowered to take action against foreign service firms on trade grounds. Such authority would in no way interfere with the jurisdiction independent agencies would have over foreign service firms on non-trade-related matters. Instead, it would merely give the President the ability to ensure that foreign service firms are granted the same opportunity in the U.S. market as our own service firms enjoy in foreign markets.

Until an international agreement on services is negotiated, granting the President this authority is absolutely necessary in order to promote fair trade in services.

Mr. Chairman, these points, on which I believe there is general agreement, are the principal elements of the legislation we have introduced. My subcommittee will markup my trade in services bill, H.R. 5519, on June 15th. At that time, I will offer amendments which will make the legislation reflect more perfectly the policy I have outlined. I will be happy to share these amendments with you.

Again, Mr. Chairman, I want to thank you for this opportunity to testify before your subcommittee. I look forward to working with you in passing this important legislation this year.

Chairman Gibbons. You made a very fine, strong statement, much of which I agree with. I look forward to sharing with you the responsibility of developing this legislation.

My staff has reported to me that staff cooperation has been excellent, and we will continue to work together to try to solve this problem. I am glad that you have taken the lead. We have representatives from the west coast on high technology, and you in the service area. Services are, I call them, the export of our renewable products, our brain power.

Perhaps one of the things we can best preserve is just that.

It is important we develop international rules of agreement; that they be fair, good rules that will allow us to operate in a free market.

I appreciate your taking the time to come and make this statement.

Mr. Florio. Our subcommittee has always primary jurisdiction over the field of tourism as well as the insurance field, and we have a number of case studies of where those industries have really had to deal with nontariff barriers as they have tried to in a sense export the services that flow from those two very important areas to our economic health.

We look forward to cooperating with you.

Chairman Gibbons. We next have a panel of witnesses, the Honorable David R. Macdonald, Deputy U.S. Trade Representative, and the Honorable Lionel Olmer, Under Secretary of Commerce for International Trade.

Mr. Macdonald, you are first on the witness list, and then we will hear from Mr. Olmer.

STATEMENT OF DAVID R. MACDONALD, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. MACDONALD. We appreciate the opportunity to appear before this subcommittee to discuss services and high-technology trade policy and address legislation before you concerning these areas.

I have a medium lengthy prepared text, which I would like to submit for the record, and then extract from it, if I may.

Chairman GIBBONS. All right, sir. Your lengthy statement will appear in full, and you may proceed.

Mr. MACDONALD. Today, trade in services and high technology may be the most important of the emerging international trade issues. This is not to say that services industries are new to international trade, Mr. Chairman.

Services such as shipping have been an adjunct to trade invisible goods since humanity has been engaged in trade in goods.

The important distinction between past and present for trade in services, both on a domestic and a global level, is the tremendous technological change which has occurred over the past decade.

This change has a twofold effect.

First, it has a very positive effect on employment resulting from the production of the services, themselves, as well as service-related goods. Approximately 65 percent of our gross national product is service generated, and roughly 7 of 10 American workers are employed in service sectors; 18 million new jobs were created by the service sector alone during the last 10 years, compared to 2.5 million jobs by the goods-producing sector of the economy.

Second, technological change is causing international service industries to become interrelated.

Now, currently, the United States possesses an important strength in services because of highly competitive or superior technology in many areas.

The importance of services to our economy is not confined to the domestic market.

The export of services has become a major source of export earning helping to offset the deficit in our trade and visible goods.

We see great potential growth opportunities for U.S. exporters of services, many of which represent the most dynamic sectors of our economy.

However, having a competitive product or even the best product is not enough. The United States will not be able to reach its full export potential unless we are able to deal effectively with a wide range of barriers that confront many of our service industries.

The most serious barriers are of an international nature, and it is in international negotiations that solutions will have to be found. In developing our strategy for dealing with these problems we must be sure to seek input from the private sector as well as to work closely with State governments where they have regulatory responsibility. Again, H.R. 5383 has taken into account these important requirements.

Mr. Chairman, I know you and members of the committee agree, solutions to the problems of international services industries ultimately lie in the establishment of a framework which outlines rules governing trade in services.

At the same time, we recognize these are immediate problems that must be addressed. We are attempting to deal with these through bilateral consultation, which is the primary tool we have available right now. Through more effective use of bilateral consultations we have been able to reduce a number of trade problems affecting service industries.

While we have had some successes with this process, the bilateral efforts have also clearly shown the limitations of a bilateral approach. Without clear Presidential authority to pursue domestic remedies to unfair foreign trade practices in services and in the absence of internationally accepted rules and procedures for trade in services our ability to resolve problems bilaterally depends either on the good will of our trading partners, or the leverage we can exert through our overall commercial relationship.

It is therefore appropriate that H.R. 5383 addresses Presidential authority under section 301 for domestic remedies to unfair foreign practices. In this regard, Mr. Chairman, H.R. 5383 touched on two other areas which are of concern to us and which require clarification: (1) whether the President has the authority to deny the importation of certain services, and (2) whether the President can take action against a service regulated by an independent regulatory agency.

Establishing a domestic process is not enough. If we are to effectively reduce international barriers, we must establish a formal international framework. To this end, the United States has undertaken a significant political effort to assure that the GATT begin examining trade barriers in services, as a part of a work program to determine the advisability of trade negotiations on trade in services.

The work program that we would like to have the GATT undertake includes: (a) compilation of an inventory of barriers that countries experience in these sectors; (b) analyzing the GATT articles as to their potential application to services, and (c) examining the GATT codes as to their potential application to service industries. Such a program should lead to negotiations aimed at developing international rules to liberalize services trade.

Mr. Chairman, it is both important and timely that your legislation addresses the need for reviewing obstacles to services. Although the President already possesses negotiating authority, your bill expresses an important U.S. political commitment to international work on services and will help communicate the determination of the United States in this regard.

Turning to high technology, Mr. Chairman, all the bills and studies that I have reviewed concerning high-technology policy issues indicate that the cause of increasing international trade policy concerns is the crucial importance attached to high-technology industries and their perceived impact on the national economic and defense structures. A distinguished Japanese Government official once said that "steel is the rice of industry." In the same sense, high technology is now looked upon as the rice of economic progress.

As international competition in high technology industries becomes more intense, there are indications that governments are promoting their high technology industries in ways which threaten to create strains, both among industrialized nations and between the industrialized nations and the developing and newly industrialized nations. The ultimate results of this process, unchecked and unresponded to, could be international governmental rivalry in high technology leading to a fractionalizing of markets, with a slowing down rather than to an accelerating pace of innovation and application of new technologies. This outcome would be detrimental to our interests as well as to global interests, in developed or a developing country alike.

The growing world importance of high technology has led many governments to adopt policies and practices directed at the development of these industries. For example, the Japanese Government is currently engaged in the following R. & D. subsidized and rationalized programs in integrated circuits, fifth-generation computers, biotechnology, and are putting heavy emphasis on R. & D. in fiber optics, lasers, and nuclear reactors.

In the meantime, the development of the European Airbus, and its promotion, appear to be dominated more by a drive for national participation in the large jet passenger aircraft industry than by profitmaking motivations.

Similar concerns have led to the foreclosing of national markets for telecommunications equipment, heavy electrical equipment, and other industries. Rather than looking to the law of comparative advantage as the touchstone determining the flow of investment and production, a number of foreign governments have taken to heart the statements of Japanese Finance Minister Takahashi that "it is far more difficult to nullify the results of an economic conquest than of a military conquest."

The subject of conflict in economic development policies of sovereign nations is indeed a sensitive item internationally. The administration's approach to this and other issues involved in high-technology trade have, of consequence, been varied.

In the GATT, we have proposed that the ministerial level meeting scheduled for next November launch an immediate work program to review barriers and disincentives to trade in advanced technology products and services; examine how these barriers are currently dealt with in the GATT and make specific recommendations as to what steps are needed to deal with the trade problems of the high-technology sector.

Bilaterally, we have impressed upon the Japanese our seriousness that high-technology markets be open on a mutually reciprocal basis when the industries on both sides of the Pacific are of world competitive class. We have also taken the practical step of setting up a bilateral workgroup on high-technology industries with the objective of identifying factors affecting competitiveness and making specific recommendations to the respective governments on ways of reducing or eliminating barriers and distortions to trade in high-technology goods and services and investment.

Introduction of proposed legislation like H.R. 5579 and H.R. 6433 is immediately helpful to our efforts. It recognizes the unique problems of technology-intensive industries long taken for granted in our international trade policy.

In March, Ambassador Brock asked Congress to examine the desirability of legislating Presidential authority to negotiate the reduction of barriers to trade in high-technolocy goods, including the reduction of tariffs in exchange for equivalent concessions. A congressional examination was also sought of the degree of the international acceptance, of foreign industrial and intellectual property rights as they affect trade and technology flows. Let me underscore, on behalf of the administration, that we welcome a thorough examination of these issues leading to appropriate legislation.

Domestically, high-technology goods and services and know-how, itself, are critical to the present and future competitive position of the U.S. economy and our national security.

Nevertheless, our permanent position in high-technology fields is being challenged by foreign competitors. Part of the answer to this challenge lies in what we, Government, business, labor, and educational intitutions—can do for ourselves to remove disincentives to research and innovation within our own country; part of the answer lies in developing a new set of international rules; part of the answer may lie in the development of an industrial policy.

Internationally, we must accommodate the legitimate aspirations of other countries to develop their high-technology industrial bases. However, governmental policies designed to foster their own industries' competitiveness and exports in an artificial environment that discriminates against foreign competition should be eschewed.

Efforts to promote domestic high-technology industries in a hothouse-protected environment may breed new industries unable to compete in an open world market.

Simultaneously, the fragmentation of markets and the exploitation of a basic research done in other countries, which often accompanies the nationalistic promotion of these industries, may discourage the very research on which the high-technology industries are founded.

Conflict in economic policies among nations with negative trade effects must be dealt with through increased consultation among nations and, where necessary, brought under international discipline. With special emphasis for the developing countries, the availability of efficient technological processes and goods in a resources-limited world should be encouraged.

High technology will be a significant source of economic growth and productivity for the world's economies in the 1980's if nations work together to insure that our governments adopt policies to promote vitality and competition and resist protectionism and other trade and technology distorting measures.

Mr. Chairman, I applaud the leadership taken in considering legislation addressing trade issues of the future. Technological innovation and economic evolution are causing the role of service and high-technology industries in global commerce to become more and more important.

The United States as a leader, both in trade and technology, must recognize this importance and push for an international framework as part of our existing trade laws. Our decision in this area will not be made without full consultation with your committee.

Thank you, sir.

[The prepared statement follows:]

Statement of David R. Macdonald, Deputy U.S. Trade Representative

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before the subcommittee to discuss services and high technology trade policy and address legislation before you concerning these areas. Ambassador Brock and I both feel these are priority areas of U.S. foreign trade policy. Indeed, they may be the most important of the emerging international trade issues.

TRADE IN SERVICES

This is not to say that services industries are new to international trade, Mr. Chairman. Shipping, for example, has been around since man first found it necessary to trade by water. Insurance and banking likewise have been integral parts of commerce for hundreds of years. Even the younger of the industries such as communications have been with us for some time.

The important distinction between past and present for trade in services both on a domestic and global level is the tremendous technological change which has occurred over the past decade.

This change has had a twofold effect. First, it has a very positive effect on employment resulting from the production of the services themselves as well as service related goods. Approximately 65 percent of our GNP is service generated and roughly 7 of 10 American workers are employed in services sectors. Eighteen million new jobs were created by the service sectors alone during the past 10 years, compared to 2.5 million jobs by the goods producing sector of the economy.

Second, technological change is causing international service industries to become interrelated. Banking, aviation, shipping, insurance and telecommunications, while distinctly separate industries, increasingly have a close interrelationship, allowing a Canadian banker to transmit a letter of credit by satellite to a U.S. shipper who arranges for a local branch of a German marine insurance company to underwrite his goods moving by air or sea to the Far East.

Currently the United States possesses an important strength in services because of highly competitive or superior technology in many areas. The importance of services to our economy is not confined to the domestic market. The export of services has become a major source of export earnings, helping to offset the deficit in our trade in visible goods.

We have every reason to believe, Mr. Chairman, that U.S. service exports will continue to grow in the years ahead. Between 1974 and 1980 the value of world trade in services increased by more than 150 percent. We see great potential growth opportunities for U.S. exporters of services, many of which represent the most dynamic sectors of our economy. However, having a competitive product or even the best product on the market is not enough. The United States will not be able to reach its full export potential unless we are able to deal effectively with a wide range of barriers that confront many of our service industries.

These problems I speak of are not always of foreign origin. In some instances we act as our own worst enemy by implementing policies or laws which act as export disincentives to U.S. firms. We agree with the concept of analyzing U.S. policies and laws, including those contained in H.R. 5383, as they affect our service industries.

By and large, however, the most serious barriers are of an international nature, and it is in international negotiations that solutions will have to be found. In developing our strategy for dealing with these problems we must be sure to seek input from the private sector as well as to work closely with state governments where they have regulatory responsibility. Again, H.R. 5383 has taken into account these important requirements.

Mr. Chairman I know you and members of the committee agree, solutions to the problems of international services industries ultimately lie in the establishment of a framework which outlines rules governing trade in services. It is to this end that Ambassador Brock and I have devoted a considerable amount of personal time and agency resources.

During the week of May 10 the OECD Ministers met to discuss a number of international issues. One of the themes which evolved out of this gathering was the need to address service issues as one of the key elements of trade in the 80's. The subject will be raised again at the Versailles Economic Summit as well as at the November meeting of the Trade Ministers at the GATT.

We expect the GATT Ministerial to establish a work program on the key trade issues of the 1980's, services will be high on our list of priorities for this program.

In short Mr. Chairman, we are using every opportunity available to promote the development of an international regime to deal with trade in services.

At the same time we recognize these are immediate problems that must be addressed. We are attempting to deal with these through bilateral consultation which is the primary tool we have available right now. Through more effective use of bilateral consultations we have been able to reduce a number of trade problems affecting service industries. While we have had some successes with this process, the bilateral efforts have also clearly shown the limitations of a bilateral approach. Without clear Presidential authority to pursue domestic remedies to unfair foreign trade practices in services and in the absence of internationally accepted rules and procedures for trade in services our ability to resolve problems bilaterally depends either on the good will of our trading partners, or the leverage we can exert through our overall commercial relationship.

It is therefore appropriate that H.R. 5383 addresses Presidential authority under Section 301 for domestic remedies to unfair foreign practices. In this regard Mr. Chairman H.R. 5383 touches on two other areas which are of concern to us and which require clarification: (1) Whether the President has the authority to deny the importation of certain services; and (2) whether the President can take action against a service regulated by an independent regulatory agency.

It is important that these ambiguities be cleared up. It will take several years to establish the kind of international framework I described earlier, and in the meantime we must have the appropriate tools to deal with bilateral problems and foreign barriers. Additionally, it is necessary to define the role of the regulatory agencies in this process because of the knowledge and expertise they possess for the various service sectors. In the last analysis, however, we strongly believe the President's ability to negotiate trade agreements could be seriously undermined if he does not have sole authority to retaliate where questions of trade policy are at stake.

While such Presidential authority would be taken as part of his overall trade responsibilities, it would be outside of the regulatory considerations exclusively reserved for the independent agencies. This is crucial so as not to infringe on the regulatory agency's authority to deny a foreign license if the application failed to satisfy the usual criteria embodied in the regulatory organization's responsibilities.

Establishing a domestic process is not enough. If we are to effectively reduce international barriers we must establish a formal international framework. To this end the United States has undertaken a significant political effort to assure that the GATT being examining trade barriers in services, as a part of a work program to determine the advisability of trade negotiations on trade in services.

The work program that we wouild like to have the GATT untake includes: *(a)* Compilation of an inventory of barriers that countries experience in these sectors; *(b)* analyzing the GATT Articles as to their potential application to services, and *(c)* examining the GATT Codes as to their potential application to service industries. Such a program should lead to negotiations aimed at developing international rules to liberalize services trade. One of our aims is to frame a Code of Conduct that will incorporate a general set of principles applicable to a cross-section of services industries. We would also like to explore the possibility of sector specific agreements dealing with market access and related issues, where that proves appropriate and desirable. We are convinced that it is in the interest of every country to establish fair markets for services.

Mr. Chairman, it is both important and timely that your legislation addresses the need for reviewing obstacles to services. Although the President already posesses negotiating authority, your bill expresses an important U.S. political commitment to international work on services and will help communicate the determination of the United States in this regard.

Another important provision of the bill which I touched on earlier is role of the states in the international services effort. The Federal Government must develop a dialogue with the States to ensure that their sovereign interests are preserved in the regulatory process. At the same time our trade negotiator must be able to speak on behalf of the United States in matters affecting foreign trade. I am confident both of these objectives can be realized through close cooperation with state governments and industry groups. We are establishing a working relationship with organizations such as the National Governors' Association, the National Association of Insurance Commissions, and others in order to carry out these objectives.

Mr. Chairman in the area of services data, we have known for some time we must improve our information on international trade in services. While official U.S. data for 1980 shows U.S. exports of services of $30 billion, it is likely that actual exports of U.S. services in 1980 were well above that figure, and in fact could have been more than twice that number. Our office, together with a number of other agencies, funded two separate studies which made a number of recommendations for improving U.S. data on international trade in services.

TRADE IN HIGH TECHNOLOGY

Mr. Chairman, I would now like to turn to the subject of high technology goods and services.

All the bills and studies that I have reviewed concerning high-technology policy issues indicate that the cause of increasing international trade policy concerns is the crucial importance attached to high-technology industries and their perceived impact on the national economic and defense structures. A distinguished Japanese government official once said that, "steel is the rice of industry". In the same sense, high technology is now looked upon the as the "rice" of economic progress. High-technology goods and related services are viewed by most nations as absolutely critical to their economic development and industrial competitiveness and national security, in both a narrow military sense and from a broader perspective of robustness of the industrial base.

In order to better understand our domestic industries vis a vis the international marketplace, the Office of the United States Trade Representative has commissioned a private study entitled "Technology and Trade Policy: Issues and Agenda for Action" which was published in October, 1981, and made available to the Subcommittee. Although this study presents the views of its authors and not necessarily that of the Administration, I commend it to you as an insightful survey and analysis.

As international competition in high technology industries becomes more intense, there are indications that governments are promoting their high technology industries in ways which threaten to create strains, both among industrialized nations and between the industrialized nations and the developing and newly industrialized nations. The ultimate results of this process, unchecked and unresponded to, could be international governmental rivalry in high-technology leading to a fractionalizing of markets, with a slowing down rather than to an accelerating pace of innovation and application of new technologies. This outcome would be detrimental to our interests as well as to global interests, in developed or a developing country alike.

Before preceeding further in my testimony, I will try to make clear what I mean when I say "high-technology industries". In defining such industries some might paraphrase Justice Potter Stewart's definition of pornography, "I know it when I see it." However, "high-technology industries" can be more formally defined as industries producing commodities or services based upon the rapid application of innovation derived from research to its embodiment in goods and services, or the technologically sophisticated process of producing the goods or services. This term includes such industries as electronics, telecommunication, aviation, robotics and biotechnology, among others, but almost every industry has its "high-technology" aspects.

Some view high-technology as the nascent industries that will expand and prosper 10 and more years into the future. These industries may include portions of mature industries like ceramics, one of the world's oldest industries, having segments that are on the leading edge of innovativeness. Still another way of defining high-technology industries is to assume that foreign governments can "know them when they see them," and to identify the industries that foreign governments have selected for special promotion. Whether we look at a French or a Japanese list, the key high-technology industries selected for nurturing are usually the same.

I would define the high technology sector to include those products the development and manufacture of which create not only a tangible material asset, such as a nuclear plant, but also an intangible asset, that is the value of the improved technological know-how needed to produce the asset itself. Although it is very difficult to evaluate this knowhow, governments are willing to tax their citizens in order to acquire it because of its potential for future profitmaking and job-creating capabilities. Learning curves are so steep in these sectors that governments fear that the loss of market share will permanently level then in the wake of their trading partners, never to regain competitive production. Thus, the support for and protection of markets in high technology is looked at as "option" paid for and purchased by governments to employ more of their citizens gainfully in high value-added industries over the foreseeable future.

This brings me back to the main issue: The growing world importance of high-technology has led many governments to adopt policies and practices directed at the development of these industries. For example, the Japanese Government is currently engaged in the following R&D programs:

(1) MITI has given approximately $400 million to five (5) Japanese companies to develop advanced integrated circuits and $720 million for software development.

(2) MITI is heavily supporting R&D efforts to develop the new fifth generation computer.

(3) The Japanese are putting heavy emphasis on R&D that will lead to energy self-sufficiency in such areas as commercialization of fast breeder reactors and reprocessing of nuclear fuel.

(4) They are continuing to put a high priority on fiberoptics R&D and are ahead in the laser technology required to use the system.

(5) MITI is also aggressively pushing biotechnology and hopes to spend $113 million the next decade. Japan's advanced experience with fermentation is expected to give them an edge in mass production of biotechnology.

In the meantime, the development of the European Airbus, and its promotion, appear to be dominated more by a drive for national participation in the large jet passenger aircraft industry than by profitmaking motivations. Similar concerns have led to the foreclosing of national markets for telecommunications equipment, heavy electrical equipment, and other industries. Rather than looking to the law of comparative advantage as the touchstone determining the flow of investment and production, a number of foreign governments have taken to heart the statements of Japanese Finance Minister Takahashi that "it is far more difficult to nullify the results of an economic conquest than of a military conquest."

We do recognize that foreign governmental interventions, while divergent from our heritage of relying on private enterprise and free markets, our legitimate attempts to grapple with the problem of economic development. However, such interventions both generate distortions in the trade in high-technology goods and services as well as in the flow of technological knowhow and investment across borders.

These distortions are compounded by the special characteristics of our high-technology industries. In these industries, competitive success is founded on accumulated research, production experience, and capital, but often perpetuated through preemptive introduction of new or improved products the revenues from which are plowed back into the next, and usually more costly, round of research and development and capital formation. Governmental intervention that close or disrupt markets and prices can result in lower immediate revenues but more importantly interrupt the product development cycle lending to the new generation of products.

The subject of conflict in economic development policies of sovereign nations is indeed a sensitive item internationally. The Administration's approach to this and other issues involved in high-technology trade have, of consequence, been varied.

In the GATT, we have proposed that the Ministerial level meeting scheduled for next November launch an immediate work program to review barriers and disincentives to trade in advanced technology products and services; examine how these barriers are currently dealt with in the GATT and make specific recommendations as to what steps are needed to deal with the trade problems of the high-technology sector.

Bilaterally, we have impressed upon the Japanese our seriousness that high-technology markets be open on a mutually reciprocal basis when the industries on both sides of the Pacific are of world competitive class. We have also taken the practical step of setting up a bilateral workgroup on high-technology industries with the objective of identifying factors affecting competitiveness and making specific recommendations to the respective governments on ways of reducing or eliminating barriers and distortions to trade in high-technology goods and services and investment. From the U.S. perspective, we cannot, however, allow this joint undertaking to slow our own efforts to protect U.S. industries from market distorting governmental measures. Through this new forum we must make early and concrete progress on difficult issues. In other areas such as cooperative research, a longer term analysis of the issue may be needed.

Introduction of proposed legislation like H.R. 5579 and H.R. 6433 is immediately helpful to our efforts. It recognizes the unique problems of technology intensive industries long taken for granted in our international trade policy. For the first type these industries are competing for national attention with industries that suffer from immediate import competition problems.

In March, Ambassador Brock asked Congress to examine the desirability of legislating Presidential authority to negotiate the reduction of barriers to trade in high-technology goods, including the reduction of tariffs in exchange for equivalent concessions. A Congressional examination was also sought of the degree of the international acceptance, of foreign industrial and intellectual property rights as they affect trade and technology flows. Let me underscore, on behalf of the Administration, that we welcome a thorough examination of these issues leading to appropriate legislation.

CONCLUSION

Domestically, high technology goods and services and knowhow itself are critical to the present and future competitive position of the U.S. economy and our national security. Nevertheless our permanant position in high technology fields is being challenged by foreign competitors. Part of the answer to this challenge lies in what we, government, business, labor and educational institution—can do for ourselves to remove disincentives to research and innovation within our own country; part of the answer lies in developing a new set of international rules; part of the answer may lie in the development of an industrial policy.

Internationally, we must accommodate the legitimate asperations of other countries to develop their high-technology industrial bases. However, governmental policies designed to foster their own industries' competitiveness and exports in an artificial environment that discriminates against foreign competition should be eschewed. Efforts to promote domestic high-technology industries in a hothouse protected environment may breed new industries unable to compete in an open world market. Simultaneously, the fragmentation of markets and the exploitation of a basic research done in other countries, which often accompanies the nationalistic promotion of these industries, may discourage the very research on which the high-technology industries are founded. Conflict in economic policies among nations with negative trade effects must be dealt with through increased consultation among nations and where necessary, brought under international discipline. With special emphasis for the developing countries, the availability of efficient technological processes and goods in a resources-limited world should be encouraged.

High-technology will be a significant source of economic growth and productivity for the world's economies in the 1980s if nations work together to ensure that our governments adopt policies to promote vitality and competition and resist protectionism and other trade technology distorting measures.

Mr. Chairman, I applaud the leadership taken in considering legislation addressing trade issues of the future. We are one of the few industrialized nations trying to plan for what is ahead. Technological innovation and economic evolution are causing the role of service and high technology industries in global commerce to become more and more important. The United States as a leader both in trade and technology must recognize this importance and push for an international framework as part of our existing trade laws. Our decision in this area will not be made without full consultation with your committee.

Chairman GIBBONS. Mr. Olmer?

STATEMENT OF LIONEL H. OLMER, UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE

Mr. OLMER. Thank you, Mr. Chairman.

I would like to endorse and echo the remarks of Ambassador Macdonald. We share them completely.

I have a prepared statement, which I would like to have introduced for the record, and would propose to be extremely brief in the comments that I would like to make and focus those comments on the subject of high technology.

Chairman GIBBONS. Your full statement will appear in the record.

Mr. OLMER. I believe that the importance of high-technology industries cannot be understated.

I think they are important for two essential reasons. One is the economic side. That is, not merely trade and investment, but productivity and standard of living.

The second reason relates to national security, and there is a subset within that national security consideration.

High-technology industries are essential to the maintenance of strong defense forces. The importance of our technological preeminence cannot be overstated. Sometimes we overlook the fact that in high technology we have a leadership responsibility relative to the transfer of technology to the Eastern Bloc, and it is essential in that context for us to maintain a preeminent role in high technology in order that we may somewhat control and direct that flow of technology.

I would like, Mr. Chairman, to leave you with what I think is a profound message.

It is a personal view, though. I cannot yet say it is the view of the administration. It is my perception that, over the last two decades, there has been a steady decline in the relative competitiveness of our high-technology industries.

I think that we are currently poised at a very critical juncture where, if present these trends continue, there will be an increasing erosion of that technological preeminence with the very serious consequences that I touched upon in both the economic and the national security spheres.

I do not believe it is too late to reverse those trends. Indeed, I think the administration is taking a number of actions which will see to it that these trends are reversed. I believe that a primary cause of this decline in competitiveness is that governments of our major trading partners intervene in the marketplace for their own enlightened self-interest, or what they perceive to be so, and have targeted for preeminence their own critical technologies areas by subsidization, by closure of markets, and the like, which Dave Macdonald addressed earlier.

We share in the Commerce Department the view of the U.S. Trade Representative's Office that a principal focus of our efforts to achieve equity, to assure the sustained preeminence of our industries in high technology and the services sector should be through multilateral forums.

We support efforts in both the forthcoming GATT ministerial and otherwise.

From my point of view, we must approach these efforts with our own enlightened self-interest and be certain that we do not give up more than we get.

I think it will be an extremely difficult task, but we should not shy away from focusing on where our national long-term interests lie, particularly as we know we will confront increased competitiveness in this high-technology area in the future.

I am sympathetic with the purposes announced in your bill, and we look forward to working with you to sharpen it for ultimate passage in the not too distant future.

Thank you, sir.

[The prepared statement follows:]

STATEMENT OF LIONEL H. OLMER, UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE

Thank you for this opportunity to address issues concerning the high technology and services industries. Both of these industries contribute greatly to our trading position in the world, as illustrated by the fact that together they account for a net positive $67 billion in our balance of payments. This Administration is taking the initiative to ensure that the problems confronting these industries will be substantively addressed.

The United States occupies the position of leadership in the Free World's economic and political structure—a role that in large measure is underwritten by U.S. preeminence in advance technology. Global stability in the economic, political, and military spheres requires that the United States maintain its competitiveness in leading-edge advanced technologies. Erosion of preeminence will have far-reaching consequences.

I want to leave this Committee today with one direct, yet profound message—that is, over the last two decades there has been an overall decline in the relative competitiveness of U.S. high technology industry. We are poised at a critical juncture where if present trends continue we run the risk of losing our leadership role in the field and we will be facing the adverse economic and security consequences that may accompany it.

To illustrate the present situation, our share of industrial country high technology exports has declined from 32 percent of the total in 1962 to 27 percent in 1980. At the same time our major industrial competitors—Japan, West Germany and France—have shown marked increases in their share of the world's high technology exports.

Moreover, U.S. expenditures on research and development grew only 25 percent in real terms between 1964 and 1979 whereas R. & D. growth ranged between 210 percent and 75 percent for Japan, Germany and France in the same period.

The decline in U.S. competitiveness in high technology will have an enormous ripple effect throughout our entire economy. We cannot be indifferent to the product composition of our economy and exports. Our productivity in high technology will directly determine our overall standard of living.

Moreover, high technology industries play a crucial role in our nation's defense. Almost two-thirds of hardware sales to the Department of Defense went to the high technology sector. I have asked rhetorically on a number of occasions whether the United States would find it troubling if it were dependent on foreign sources for roughly 50 percent of some high technology products used by our military. Although I have thrown out such a figure simply to direct attention to the point, increased reliance on foreign sources for military technology will heighten U.S. vulnerability. In such situation, the United States would lose significant direct control and leverage over transfer of sensitive advanced technology to the Soviet Union.

The reasons for our relative decline are varied and range from higher relative labor cost to declining relative investment in R. & D. to the high cost of capital borrowing. In addition, and in my view, of first importance is the fact that the governments of our major industrial competitors have intervened in the market place and have targeted critical technologies for controlled assistance and development.

The competitiveness problem we face in high technology goes far beyond our usual trade policy concerns of tariffs and the traditional nontariff barriers. The challenge in significant part stems from structural factors and foreign government industrial policies.

Our services industries are often on the cutting edge of new technology. Their importance to our economic health has traditionally been understated. However, "Services" (excluding those provided by the government) represent more than half of our GNP and employ 50 million people—66 percent of nonfarm private sector labor. We estimate that international services business—including exports and income from overseas affiliates—amounted to $140 billion in 1981. And that does not include services sold internationally by companies which are primarily goods producers.

Despite the good track record of our services industries, increasing impediments abroad on the direct sales, establishments, and operations of these firms, threaten their future growth. And in some service industries foreign subsidization by developed and developing countries alike threaten to undermine their competitiveness.

It may very well be, however, that our traditional approach to trade barriers will not suffice in the high technology, or even services, area. As a government—and I should say the same with respect to industry—we are only at the beginning in coming to grips with this matter. Let me quickly review some of the steps we are taking, particularly in the high technology area.

The Secretary of Commerce is spearheading an effort in the Cabinet Council on Commerce and Trade to examine our competitiveness in high technology. I chair the Working Group on High Technology Industries of the Cabinet Council on Commerce and Trade which is preparing an assessment of U.S. competitiveness in U.S. high technology industries. I expect this study will be completed shortly.

In addition, we have created an ITA Task Force on High-Technology Industries to begin to identify ways of dealing with the industry practices of our major high technology competitors which constitute barriers to free competition.

ITA is not the only part of Commerce working on the problems of these industries. The National Bureau of Standards is carrying out programs in the areas of computers, microelectronics, robotics and bioengineering. The Office of Patents is concerned with protection of intellectual property rights. The Office of Productivity, Technology, and Innovation is concerned with factors which promote R. & D. and productivity and is studying ways to enhance U.S. research capabilities. The Bureau of Industrial Economics provides specific expertise in the major high-technology industries and regularly issues reports on economic conditions in these sectors. The National Telecommunications Information Agency follows the international transport of data.

As to service industries, a task force within the Department, consisting of the Office of Service Industries, the Bureau of the Census, the Bureau of Economic Affairs, and Bureau of Industrial Economics, is working on a departmental proposal to develop a service industries data base. This data base would be used to assess the impact of foreign trade barriers on our services industries. This data base also will enable us to effectively integrate service industry problems in our consideration of policy issues such as taxation, antitrust, export trading companies, and transfer of technology.

Commerce and USTR have recently agreed with the Japanese Ministry of International Trade and Industry to establish a bilateral working group of high technology. The working group will address issues such as the structure and trends in high technology industry, cooperative R. & D., industry targeting, trade distorting barriers and access to capital markets for high technology industries.

In the multilateral area, we are proposing that the GATT Ministerial in November establish a work program in services and high technology. It is necessary that we undertake a concerted effort with our major trading partners to assess ways in which multilateral disciplines can insure free and fair competition in these areas. We are aware the progress may be slow and, from our point of view, we must approach these efforts with an enlightened self-interest in order to be certain that we do not give up more than we get. We must not shy away from the difficult task of focusing on where our long-term interests lie, particularly as we face increased competition in the high technology area.

We are sympathetic with the purposes of many of the provisions in the services and high technology bills which the Subcommittee is considering. As the Administration has indicated previously, we stand ready to work with the Congress in attempting to fashion a bill which satisfies our common interests.

Thank you.

Chairman GIBBONS. Mr. Macdonald, let us turn to the high-technology area.

For your purposes, how would you define a high-technology product?

Mr. MACDONALD. Well, Mr. Chairman, there are those who would define it in the same way that Potter Stewart defines pornography: They know it when they see it.

It is without any further definition, but that cannot satisfy us.

It is very difficult to define, and you are putting your finger on one of the principal difficulties with legislating, with respect to it.

I think from our purpose the significant thing that exists with respect to a high-technology industry that does not exist with respect to other industries is that high-technology production includes those products, the development and manufacture of which, create not only a tangible material asset such as a nuclear plant, but also an intangible asset that is the value of the improved technological know-how needed to produce the asset, itself.

Although it is very difficult to evaluate this know-how, governments are willing to tax their citizens in order to acquire it, because of its potential for future profitmaking and job-creating capabilities.

Learning curves are so steep in these sectors that many governments fear that the loss of market shares will permanently leave them in the wake of their trading partners, never to regain competitive production.

Thus, the support for protection of markets in the high-technology field is viewed by a number of governments as a kind of an option to maintain very desirable, high-value-added employment for their citizens.

They are willing to pay for that, because indeed they know that they are paying for something, the fallout of which will help them the next time there is an order for the same product or an improved product.

Chairman **Gibbons**. Of course, this is a very difficult area in which to negotiate. I notice that the United States and Japan recently announced the formation of a bilateral issues committee concerning high technology.

What are our aims in that bilateral negotiation, how do you see this bilateral negotiation fitting into our multilateral plan, and do we plan any more such bilaterals?

Mr. **Macdonald**. The Commerce Department and the U.S. Trade Representative's office are cochairing that.

Chairman **Gibbons**. Whenever that occurs, Mr. Olmer, or Mr. Ambassador, go ahead, and each one of you chime in.

Mr. **Macdonald**. We look at the problem as one of the maintenance of the competitiveness of our own industries in the face of extensive subsidized and directed research and development by the Japanese Government in many areas, which has in cases ever reached the then state-of-the-art and advance of that particular technology, and has gone down the learning curve to a point where it tends to shut off the ability of the U.S. competitor who is not getting similar favorable treatment at the hands of the U.S. Government.

It tends to shut off his ability to compete as progress is made in that technology.

Somewhere we have got to neutralize that Government assistance. Whether it is done through the enforcement of the existing trade legislation that we now have, whether it is done through some sort of Government assistance on our part, or whether it is done through going to the Japanese and making sure that the results of that, of those efforts, are made available, those efforts—mostly by the Ministry of International Trade and Industry, are made available on a national treatment basis; that is to say, to foreign manufacturers such as ourselves, in some way that problem has to be solved, because it, over the longer term, the tension created by those programs cannot continue.

There must be a new method of operation between the two countries.

Chairman **Gibbons**. Mr. Olmer, do you have anything you would like to add on that point?

Mr. **Olmer**. I think that with respect to your first question as to how one measures high-technology industries, there are some more precise ways of defining it rather than by seeing it, touching it and squeezing it.

They include such measurements as percent of R. & D. expenditures as a function of value added, whether looked upon as a product-by-product basis, or industrywide.

There are some disagreements as to the definitions to be used, but it is very important that we decide on a definition, and perhaps use several as we look at the trends that have occurred in those areas that we would label high technology.

It is important to do that for, in part, the very reason that Ambassador Macdonald spoke with respect to the Japanese Government's efforts to join with us in a bilateral work group, to examine high-technology issues as between us.

My own view is that we should not just blame the Japanese for those trends in what I perceive to be a declining competitiveness.

It is a fact that the United States has experienced higher relative labor costs; that we have invested less in R. & D.; and that our capital costs are higher.

Those are problems that we confront generically, and they are not problems that we can foist off on the Japanese Government, but, having said that, it is also true, in my judgment, that the Japanese ability in high technology cannot be overstated.

They are and will remain our major competitor across the board practically in what we would, I think, without argument, label high technology.

It is essential that we assure for American corporations an ability to compete in Japan.

We cannot tolerate and reverse the trends in competitive decline in a closed Japanese marketplace, either to direct sale or to investment.

Part of that stems from the fact that the Japanese economy will be the second largest market for many high-technology goods, such as telecommunications, computers and semiconductors.

It is essential, therefore, that our companies have that opportunity to compete fairly in that marketplace.

It is also significant that, to date, the Japanese Government has not been forthcoming in allowing American corporations to buy or have access to the fruits of high technology investment in research and development, patents and licenses. As you well know, this country has almost, without exception, offered its high technology with commercial application to purchasers from abroad.

We would like to see that kind of a situation prevails, so I think the first meeting of this working group will take place in July with representatives of the USTR and the Commerce Department, and the Japanese Government, and we will begin to look at a very ambitious agenda and work program designed to come up with some answers to these very troubling questions.

Chairman Gibbons. Have you completed an inventory yet of what you think are the objectionable practices carried on by the Japanese Government, or other governments?

Mr. Olmer. Yes, sir.

Mr. Macdonald. I am not sure it will ever be complete, Mr. Chairman.

Chairman Gibbons. Mankind is very fertile. It can constantly keep changing, but we do have an inventory now of——

Mr. Macdonald. What we consider to be obstacles to American exports; yes, sir.

Chairman Gibbons. When is your first meeting?

Mr. Olmer. In July.

Chairman Gibbons. In July?

Mr. Olmer. I might say, Mr. Chairman, that the Japanese, I believe it was the Japanese, themselves, who proposed the establishment of this work group initially. They are anxious to get together with us, and they realize this is a very sensitive matter between our two Governments.

Mr. **MACDONALD**. That is correct.

Chairman **GIBBONS**. Well, that is very helpful.

Mr. **SCHULZE**. What has been the response to your tentative feelers at GATT over bringing up the issue of services? Was it greeted with enthusiasm or reluctance?

I have detected a reluctance to discuss anything that is substantive at GATT, and I am curious as to what kind of response you have received.

Mr. **MACDONALD**. We have been working on that issue and its possible inclusion in the GATT ministerial agenda in November for quite some time, particularly through the OECD, with other developed countries.

I think it is fair to say that we do not have opposition to a work program on services among the developed countries.

The less developed countries were initially quite skeptical.

Even they, however, particularly the ASEAN countries, are beginning to see the value of freeing up an area with as many obstacles as do exist in this area, and while the issue is still out a little bit with the LDC's, this matter will go on the agenda for November, to determine what the problems and possible solutions are.

Mr. **SCHULZE**. I take it from that, progress is being made; that you feel better than you did a month or 6 weeks ago, and our hopes for some kind of meaningful GATT ministerial are improving?

Mr. **MACDONALD**. I think they are.

Mr. **SCHULZE**. Mr. Olmer, I share many of your concerns in the high-tech area which need to be looked into very carefully.

I am very concerned about the stealing and surreptitious taking of our high-tech areas by other nations. We need some kind of safeguards along that line. Anything that you have in mind in those areas would be appreciated.

Mr. **OLMER**. I might say with respect to that particular issue, that the flow of technology from the United States to foreign countries, both Communist and non-Communist, comes predominantly as a consequence of our being an open society.

I do not have a number that is authoritative, but I would say that the very small percentage of the sum total of technology which is acquired from the West by the Soviet Union comes from surreptitious means or means which avoid the export licensing process that we have.

Mr. **SCHULZE**. You say a very small amount?

Mr. **OLMER**. A very small amount. The majority of it does come from the open literature, access to scientists, some espionage, but beyond the reach of our Export Act. That does not mean it is unimportant. We are making some dramatic changes in that area to repair the holes in the system that presently exist.

I might call attention to something that is ongoing as a more comprehensive look at the subject of declining competitiveness and high technology. The Secretary of Commerce is undertaking, on behalf of the Cabinet Council on Commerce and Trade, along with a working group composed of representatives of many, many agencies of the Government, a study on the decline in U.S. high-technology competitiveness. We are looking at about a dozen different industry sectors and trying to come to grips with the question of definition, and how one measures declines in competitiveness. There are those that would say merely examining trade flows or relative cost is not an indication of your absolute ability to compete, if you really chose to compete.

Others would have a different view.

We are trying to consider those different views in a disciplined and analytical way. I hope to have a study to present to the Cabinet Council within the next couple of months.

Mr. SCHULZE. Thank you, gentlemen.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Macdonald, what is the timetable of our Government in GATT for actual negotiations to begin in services or in high technology, or I should say perhaps and in high technology?

Mr. MACDONALD. We expect that it will take some time to build sufficient expertise in the GATT, and, therefore, the work program we are proposing for the GATT ministerial in November is defined to build up that expertise and provide the basis for determining what those negotiations might address.

I don't know how long it will take to develop that kind of comfort with the subject matter on the part of our trading partners.

I would hope that the work program might be completed, Mr. Chairman, in perhaps 12 to 18 months after the ministerial.

Chairman GIBBONS. Well, do we expect to have these issues on the ministerial agenda on trade in services, and trade in high technology?

Mr. MACDONALD. Yes, but as work programs. In other words, our trading partners are chary about plunging into a negotiation when they are not fully familiar with what the parameters and framework of such a negotiation might be. As a prerequisite or preliminary to such negotiation, we have told them that there should be no objection to the country sitting down and determining what is amenable to being negotiated, what is not amenable to being negotiated, our goal would be to set out the issues for negotiation first, and we would look at that as not negotiations, but consultations during the course of a work program that would create a framework for negotiations later.

Chairman GIBBONS. In the ministerial do you expect to set any kind of goals, objectives, deadlines or anything of that sort?

Mr. MACDONALD. The ministers, we would hope, will instruct their representatives in Geneva to set deadlines for the completion of work programs.

Chairman GIBBONS. Are we prepared to negotiate?

Mr. MACDONALD. I think we are a little ahead of most of our trading partners for the most part but we are not adverse to learning things ourselves.

If the work program surfaces things that we should be cognizant of, we want to learn.

In the services area, we have worked very closely with our advisers, and have consulted with the interests that have a stake in this area, such as the State governments, particularly in those areas where they have preeminent authority such as insurance. In addition there are the regulatory agencies which we have to work and coordinate with in order to satisfy them that we are not depriving them of jurisdiction while at the same time we are leaving the power of solving international trade problems in the hands of the President.

Chairman GIBBONS. How high is a negotiation on technology and on services on the American agenda?

Mr. MACDONALD. I would say that it is in the first range of our objectives, the problem being that we just don't think we could sit down and start a negotiation until everyone is brought along on a consensus basis.

Chairman GIBBONS. I am afraid we have to be more vigorous than that. How much time are we devoting to this? How about in USTR? In Commerce, how much time are we devoting to getting ourselves prepared for this negotiation? If we don't lead the way, nobody else will.

Mr. MACDONALD. I would say we have spent an enormous output working with your staff and you, Mr. Chairman, looking toward the framing of issues, but it just can't be done overnight, I guess.

We will make every effort that we can to bring along our trading partners.

We are meeting with them constantly over in Geneva and in capitals to attempt to explain to them exactly what we have in mind, and to get them to go along with it.

I met this morning with one of our major trading partners, partly on this subject.

Chairman GIBBONS. We have a ministerial coming up in November, and I am worried that we are going to miss the plane.

Is there any way—do you have enough people on board to do this work?

Mr. MACDONALD. As you know, Mr. Chairman, we have 113 people at USTR and 8 people are working full time in the services area.

High technology and services are a very high portion of that work, along with safeguards and a few other important topics.

I would say we have at least half of those.

Chairman GIBBONS. How about on your agenda, Mr. Olmer?

Mr. OLMER. I would like to return to something I said at the outset.

It would be the wrong thing to do even if our trading partners were ready to enter into a negotiation, which, as I hear it, and read it, and experience it directly, they are not.

Even if they were ready to go on and negotiate, we still are somewhat preeminent, and we don't want to lose that edge in a negotiating flourish.

We have spent in the Commerce Department, and with an interagency group of people the last 4 months examining this issue of the decline in U.S. competitiveness.

I have assigned eight people to work on that full time for the last 4 months, and they will continue in that vein for probably the next 2 months.

In addition to that, working with Ambassador Macdonald, we are aggregating all of what we perceive to be the limitations on access by U.S. companies from both an investment and market penetration point of view.

I believe it is necessary that we do all of those things and understand where we are before we would know where it is we want to come out.

That process is close to completion.

Chairman GIBBONS. Are we involving the private sector at all in this discussion? If so, how?

Mr. MACDONALD. Constantly; through the Advisory Committee on Services, and through everyone else we can; well, we have a constant dialog at Commerce, and when I say we, I mean the interagency process on a service-industry-by-service-industry basis, considering what is possible, what is desirable.

Mr. OLMER. The ISAC program is a very useful resource. While there is no one ISAC which is identified as high technology, partly because high-technology industries are strewn throughout many of the remaining ISAC's, we have spoken to them continuously on this subject.

Chairman GIBBONS. Is it your impression that the private sector of our economy wants to move forward on a negotiation such as this?

Mr. MACDONALD. Yes, it is, and I think that this is where, I think, this will be reflected in congressional consideration in the kind of legislation you have before you, Mr. Chairman.

I believe that you will find substantial private industry support for the kind of negotiating mandates that are contained in high-technology and service bills that you are considering.

Chairman GIBBONS. Is there anybody in American industry or American labor that is opposed to negotiating in this area?

Mr. MACDONALD. Yes, the unions, I think, feel that we have not done an adequate job by them in the past, and we will not do an adequate job for them in the future.

Chairman GIBBONS. What is your response to that?

Mr. MACDONALD. My response——

Chairman GIBBONS. We won't argue about the past.

Mr. MACDONALD. We need to be as assiduous as we can in looking to union participation in these fields, because if we don't help the worker in the United States, we have not helped anybody really.

The whole thing gets down to how many people we have working, and what quality of job they have. And we look at that as our ultimate responsibility. We do not think that a lot of the economic problems we have resulted from international trade negotiations.

Chairman GIBBONS. I suggest that you quadruple your work force for this. We appreciate your coming here today.

The next witness is from the American Federation of Labor, AFL-CIO, Dr. Rudy Oswald.

STATEMENT OF RUDY OSWALD, DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AFL-CIO, ACCOMPANIED BY ELIZABETH R. JAGER, ECONOMIST

Mr. OSWALD. I would like to highlight my statement. Accompanying me this afternoon is Mrs. Elizabeth Jager, economist with the AFL-CIO.

Chairman GIBBONS. We respect you and appreciate your coming.

Mr. OSWALD. In your call for these hearings, you listed a large number of subjects that are of concern to you. In trying to deal with those large numbers of issues, I have tried to highlight just one aspect, and would ask you to spend more time on those many issues that are before you, because they affect all of America very deeply.

Today, I would like to highlight the question of whether it is advisable to negotiate new international rules for service industries and whether the question of what roles the United States should seek to attain in a negotiating initiative.

Your questions just recently of the administration indicate that we have not determined exactly what our goal should be in that type of initiative, and before we press forward with attempting to negotiate, we should make sure we know what it is that we want to attain.

Further, whether we have adequately assessed the problems of what the impact of such negotiations would be at home. So much of the attempt up to now has been to try and look at foreign barriers, whatever one might believe that those barriers are, without addressing adequately what the impact of the same sort of questions and issues would be on the United States.

The two bills before you, H.R. 5383 and H.R. 5579, raise important questions, but I think that they go further than is warranted at the current time.

There is far too little understanding about the likely effects of international negotiations on services or high-technology products, as they would affect the U.S. industry.

Both bills give the President a mandate for negotiating. Both bills give the President virtually unlimited authority to affect the U.S. economy and its future through international agreements.

Trade in services is a much more diverse element than product negotiations, and the problems for building construction trades are not the same as they are for the entertainment industries or insurance or banking or many others.

In terms of the effects on employment, they are also very diverse. The implications for airline and banking employees are very different.

In some cases, we are only talking about fees and jobs. In the way we currently account for services in the international trade statistics, we are frequently counting payment rather than jobs in terms of their impact.

We often count them differently in terms of employment statistics from trade statistics. The notion of impacts are substantially different. Frequently, we talk of barriers, restrictions for entry for cooperation into engaging into a particular action, and yet in the United States for the airline industries, we maintain the right of the airlines to fly between two U.S. locations as a requirement for a U.S. airline.

I am not sure at all that we want to open up the route from Kansas City to Chicago to Singapore to airlines.

There is really no way that we could get equivalent access, because that is one city, a country city, nor is it a means of which, I think in the long run, that we would maintain our superiority, having the ability to move and maintain an airline industry in this country, if we didn't maintain those types of requirements.

Similarly, another important element is immigration policy that becomes integrated very greatly into any discussion of negotiations on services, and we are afraid that the bill itself does not recognize this problem, because many of the issues that require that nationals of a particular country perform certain jobs in the service sector is in essence an important element of immigration policy.

We assume that the Congress is currently considering important review of the entire U.S. immigration policy, and I assume we don't intend to change it through the back door in a service negotiations in Geneva.

The other element that Mr. Macdonald addressed a little bit in response to your question, and that is the reluctance of many of the others to come forward in the negotiations, and one of the reasons for that reluctance is that as they look at the U.S. statistics, we show an immense surplus in services.

However, the dollar volume of the services account is not always beneficial for U.S. workers.

For example, the current account is in surplus from dividends on foreign investment, and because the statistics report profits of U.S. industries, not necessarily returned to the United States as the huge surplus, and that surplus gives the United States a weak bargaining leverage and diverts attention from delays or prohibits actions on specific problems.

One other important aspect is that the bill does not draw attention to the kinds of employment that have already been lost or jobs that will be gained or lost by expanded services internationally.

Nor has there been any recognition that dollar volume of services transactions does not necessarily imply a proportionate relationship to gains and employment. It may be negative. Particularly in high-technology industries, and the transfer of jobs to other countries may accompany licensing of computer software or other "sales" of services, but your bills make one very important contribution to the discussion of the impact of services on trade, and that is the addition of a new section 301 ability, authority against unfair imports of services.

We think this is an important step in the right direction and could provide some important needed protection against dumping and subsidies and services that does not now exist.

In terms of the High Technology Act of 1982, H.R. 5579, we believe that again it gives the President unfettered ability to negotiate on an unidentified range of high-technology products and foreign investment in those products.

As you had raised the question with the administration representatives, there is clearly no understanding of what exactly is high technology, and yet it calls for acceleration of all tariff cuts on high-technology products.

We believe that there should be adequate time to have the absorption of the 8 years that are scheduled in the 1979 Tokyo round of staging of those cuts that were the result of hard-won bargains and specific concessions without automatically speeding up that type of cut which currently, for many of the computer-type electronic items, amount to approximately a 32-percent cut in their previous reductions.

Mr. Macdonald spoke a little bit about the problems with Japan and yet in the 1979 negotiations, we went through a major negotiation on trying to get them to develop it in the code.

All that the Japanese telephone company has bought was a couple of pocket papers, and that is hardly any hope for the future of high technology and change.

It seems to me that under those circumstances, if we think that we are going to accomplish some miracles with new negotiations, we are only deluding ourselves in terms of what we have already not accomplished in terms of the previous negotiations in those respects.

One item in the high-technology area that I would like to emphasize is that the section 3(g) of the act seems to give the President completely unfettered authority, and if I may quote just a small section. It states as follows:

> The President is authorized to include in any agreement concluded under this act commitments to make changes in U.S. laws, regulations, and policies that are considered necessary and appropriate to insure the continued competitiveness of the U.S. high technology industries, which change shall be considered by Congress.

I think those words, Mr. Chairman, are such that they abrogate to the negotiators practically all authority over all laws, and even though the Congress does retain the final authority to bless or not bless those changes, once the negotiators in a package have made those changes, it is very difficult for Congress to say go back and start your negotiations over again, because you have given away half of the U.S. laws under what is called a trade and services negotiation.

Mr. Chairman, we think that you have raised many important questions, but we think that they are not simple, will not be solved solely by instituting a new multilateral negotiations, and what we need to is to emphasize more of the bilateral negotiations and the sectoral negotiations within various sectors of the service industries, and specific approaches to high technology problems under the existing laws rather than start new negotiations.

We thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF DR. RUDY OSWALD, DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AFL-CIO

The AFL-CIO welcomes this opportunity to discuss the varied and unique policy issues involved in international trade in services and high technology products.

The subcommittee has raised key issues concerning the subjects of services and high technology. Those issues center on the questions of what to do about the following problems:

The failure of the U.S. government to identify and address foreign government measures or policies which inappropriately distort trade and investment flows in the services and high technology industries.

The concern about U.S. laws and the applicability of current international rules and agreements on international trade and investment in services and high technology.

The urgency of enforcing existing laws which are in fact adequate to deal with some trade and investment problems in the services and high technology industries and of improving those laws which are not adequate.

The question of whether it is advisable to negotiate new international rules for these industries and the question of what goals the United States should seek to attain in a negotiating initiative. Should the United States negotiate before it has actually assessed the problems of industries and laws at home, and should it be bringing an international initiative at this time?

The implications of launching a global negotiation without improving the inadequate data in international trade generally and in trade in services specifically.

The problem of finding ways to improve monitoring capability in services and technology, when monitoring of trade in manufacturing is not adequately addressed.

Each of these issues is serious enough to be the subject of separate hearings. Each deserves careful study and lengthy consideration of the many, complex and diverse problems that affect most of the U.S. economy. We hope this is only the first of many hearings on these issues.

Services and high technology products involve many different industries, products and problems. They affect most of the U.S. economy and are the key to America's future. They are not two sectors whose parts have clear and common characteristics. In fact, they are not necessarily sectors at all.

The AFL-CIO believes, therefore, that H.R. 5383 on international trade in services and H.R. 5579 on trade in technology are premature. There is far too little understanding about the likely effects of international negotiations on services or high technology products at home. But both bills give the President a mandate for negotiating. Both bills give the President virtually unlimited authority to affect the U.S. economy and its future through international agreements. We believe these bills put the cart before the horse. Instead of a blank check, the President should use wisely the extensive authority already granted by the Congress before he is given more. In short, practical steps to solve specific problems can be taken now.

We believe that under present law, the President has authority to negotiate on U.S. access to foreign markets for each service industry and should act on specific problems now.

The AFL-CIO believes that much more study of the problems of the U.S. service and high technology industries at home is necessary before legislation is enacted. Recent experience shows that the U.S. trade laws and the international agreements concluded in 1979 need to be reviewed before new international initiatives go forward.

For example, the EEC has threatened retaliation against the U.S. if it plays by the rules agreed to in 1979 on subsidized steel imports. This raises questions about what international negotiations mean.

During the first five years of the Tokyo Round negotiations, the U.S. made many concessions to get a subsidies code. The U.S. law on subsidies was finally changed in 1979 as a major concession. This change was the price for other nations to sign the subsidies code. If the United States cannot now enforce compliance with law and recent agreements, then trade is only a one-way street and the United States has no rights at all.

To launch new multilateral services and high technology product negotiations before the Tokyo Round codes and tariff cuts are absorbed and tested is unwise.

While H.R. 5383 properly draws attention to the problems of U.S. service industries abroad, we believe that a legislative call for international negotiations and a code on such a wide range of industries and issues is premature. In July of 1981, AFL-CIO President Lane Kirkland summarized AFL-CIO policies toward trade in services in this way:

"Services represent a huge combination of issues too long overlooked in trade policy. For U.S. banks, shipping companies, airlines, broadcasting, advertising, insurance and many other types of firms, the policy issues seem clear: discrimination against their foreign expansion calls for action by the U.S. government.

"For many years, AFL-CIO policies have also called attention to effects at home. Seven out of ten U.S. jobs are now in 'services.' American seamen were the first to experience the export of service jobs after World War II. American air traffic has led to disputes that affect pilots, flight attendants and maintenance crews. The AFL-CIO does not want to see jobs in services—now the majority of jobs in the U.S.—traded away as manufacturing jobs have been."

The four purposes of the bill are all important. First, the bill emphasizes the importance of services to the U.S. economy. But the fact that services employ more than 70 percent of all Americans and contributes more than two-thirds of our gross national product does not translate into any clear guide about the impact of negotiations abroad on service industries or future employment at home.

Secondly, the bill directs the Administration to raise the issue of an international services code at the 1982 GATT ministerial meeting. We believe that the Congress should understand what such a code would consist of before such direction is given.

Third, the bill provides for coordination and implementation of U.S. trade policy with regard to services. While the direction for consultation with the private sector is in the bill, there is no clear direction that the Administration study the problems U.S. industries have experienced from foreign service industries in this market, and the potential impacts on each industry of services negotiations.

Fourth, the bill seeks to insure that U.S. service industries continue to have free access to foreign markets. To accomplish this objective, the bill emphasizes the President's authority to take action against unfair practices "either at home or abroad which affect U.S. service industries." But we believe that many important existing regulations covering practices at home should be preserved. In short, we do not believe that removing all so-called trade barriers will necessarily benefit U.S. industries or employees at home.

The trade problems in services are specific and quite diverse. The problems of building and construction are not the same as the problems of entertainment. There are so many different types of perceived "trade barriers" that U.S. government offices have made a list of over "2,000 barriers to services," and this is far from exhaustive. Nor would everyone agree that all should be removed. Some examples of service barriers reported in the October 5, 1981, Wall Street Journal are:

"Australia won't let foreign banks open branches or subsidiaries.

"Sweden bars local offices of foreign companies from processing payrolls abroad.

"Argentina requires car importers to insure shipments with local insurance companies.

"Japanese airliners get cargo cleared more quickly in Tokyo than do foreign carriers.

"And, if a U.S. company wants to use American models for an advertisement in a West German magazine, it has to hire the models through a German agency—even if the ad is being photographed in Manhattan."

The effects on employment are also diverse. The implications for service industries jobs for models and engineers, for bank employees and airline personnel are diversified. Fees and royalties, which are counted as payments or receipts for services in the balance of payments accounts, may be the result of employing personnel abroad and do not create U.S. jobs. In the same way, payments for foreign building and construction operations are counted as payments, but they do not create building and construction jobs in the United States.

Even employment classifications are different nationally and internationally. In the U.S. economic classifications, for example, building and construction employees are not classified as "service workers." They are classified as "goods producing" workers. Thus, the international "services" are not the same as "domestic services," where employees are concerned.

These differences make it absolutely essential that policies on general negotiations be based on the practical solutions for specific current problems so that the huge diverse service industries will not be lumped together inappropriately for some overall negotiations.

A commitment to overall negotiations in services, therefore, should await more specific solutions through bi-lateral negotiations and action in each service sector to solve American service problems in trade—both at home and abroad. While existing trade laws already provide authority to act and negotiate on services, the authority has not been used to get enough experience or solve enough real problems to give a realistic basis for this legislation's general call for negotiations. To make America wait for another five years for the hope of global negotiations—whatever they may mean—will not address the need for specific problems in specific service sectors to receive adequate attention. Problems for airlines, shipping companies, credit card companies, telecommunications companies, etc., need solutions—not negotiations.

These are specific problems in services that have been multiplying both in terms of the effects on domestic industries and jobs and the effects on U.S. service industries when they try to operate abroad.

The airline industries' problems abroad need action now, for example. No new rights to foreign airlines in the United States should be given in exchange for "concessions" abroad. For example, the United States should not open up for Singapore Airlines the air route from Kansas City to Chicago because not allowing them to have the route is considered a "barrier" to trade. The United States has been hurt already by too many one-sided negotiations. But this problem is not effectively addressed by a call for global negotiations on some unknown quantity of unidentified "services." It needs to be addressed now.

Insurance problems need action now, and some have received it. But should the United States preclude any barriers to trade in services that would assure that the United States has an insurance industry while it seeks global solutions? Or, in global negotiations, is it appropriate for "barriers" in insurance abroad to be removed in exchange for the United States removing "barriers" in insurance abroad to be removed in exchange for the United States removing "barriers" in shipping here? Should the United States agree not to pass any law that would assure that the U.S. insurance carriers could continue to exist when foreign insurance companies where using unfair tactics in this market? We think many of the problems can be solved now by positive action.

Immigration policy is an integral element when services are discussed in distinction to when products are negotiated. But the bill does not recognize this problem. As we have shown above, the issue of requiring that foreign nationals perform certain jobs is a major complaint of the U.S. service industries about barriers they face abroad. But a negotiation would affect immigration rules here and abroad to remove such "barriers."

The United States should not want to give up standards for lawyers, doctors, accountants, nurses, electricians, etc. These standards have been developed to protect American society as well as its economy.

Negotiations involve concessions, but concessions that would be considered by service negotiators have not been examined and the impact on U.S. service industries at home has not been assessed. Even the condition of specific industries at home—such as shipping, airlines, motion pictures, etc.—has not been assessed.

The United States cannot afford to urge all the rest of the nations to come to the table to negotiate on a code for services by proclaiming that the United States has a trade surplus in services. However, the dollar volume of the "services" account is not necessarily beneficial for U.S. workers. For example, the current account is in surplus from dividends on foreign investment and because the statistics report profits of U.S. industries (not necessarily returned to the United States) as a huge "surplus." That surplus gives the U.S. a weak bargaining leverage and diverts attention from, and delays or prohibits action on, specific current problems.

The bill does not draw attention to the kinds of employment already lost or jobs that will be gained or lost by expanded services internationally. Nor has there been any recognition that dollar volume of service transactions does not necessarily imply a proportionate relationship to gains in employment. It may in fact be negative. Particularly in high technology industries, the transfer of jobs to other countries may accompany licensing of computer software or other "sales" of services.

The United States should, therefore, go to the ministerial meeting to examine how the GATT agreements are working and with the intention to assure the reciprocity that is implicit in the GATT and stated in U.S. law. New codes and new issues should await specific efforts and specific actions to solve current problems.

The United States needs to place temporary restrictions on harmful imports—including those in service industries—during this recession. In manufactured products and parts of products where import penetration has gone up while the economy has been declining, the impact disproportionately puts the burden of recession on American workers. The same is true in service and high technology industries, such as telecommunications.

The United States needs to act vigorously to enforce the reciprocity provisions of the Trade Act. The fashioning of new remedies to assure a strong and diversified U.S. industrial structure with growing service industries is essential for America's well-being, both at home and abroad.

H.R. 5579, the "High Technology Trade Act of 1982" goes even further and mandates the President to negotiate on an unidentified range of high technology products and foreign investment in these products. It calls for acceleration of all tariff cuts on high technology products.

The Tokyo Round's staging of tariff reductions over 8 years, starting in 1979, will not be complete for some time. Therefore, if H.R. 5579 is adopted, much of the hard-won bargains and concessions from the Tokyo Round will be undercut and avoided by additional tariff cutting authority. The bill would compound the adjustments already required by the average total tariff cuts of 32 percent in the Multilateral Trade Negotiations. Those multilateral negotiations for five years did not lead to full cuts because of many compromises. It seems inappropriate suddenly to extend the authority into the future.

The United States has given more than it received in most of the tariff rounds for the past three decades. There is no reason to reduce U.S. tariffs even further, while the United States and the rest of the world have not even digested the tariff cuts in the Tokyo Round.

For example, Japanese semi-conductor negotiations have not, in the view of many in organized labor, been successful. The market has fallen out of semi-conductors just as U.S. tariffs are lowest. The Japanese tariffs are down, but Japanese practices, which effectively require and/or encourage production in Japan for export, have not changed. Thus, the harmonization of the tariff on semi-conductors between the United States and Japan may lead to more companies going to Japan and a loss of U.S. competitive strength—in the United States. Meanwhile, the Europeans have not reduced their 17 percent tariff on semi-conductors. They can ship to the United States at the new low rate. The result will be expansion of production in Japan and the EEC, while the United States has reduced its tariffs (unilaterally for Europe). Thus, the accleration of tariffs cuts creates a one-way street for imports of high technology products.

The bill also mandates negotiations to help U.S. industry to expand investments in high technology in other countries. The AFL-CIO does not believe that U.S. negotiations should seek to push even more investments abroad, particularly at a time when U.S. investment is lagging at home, and was the central focus of last year's tax bill.

Furthermore, H.R. 5579 authorizes the President to make agreements to change virtually any U.S. law. Section 3(g) states:

"The President is authorized to include in any agreement concluded under this Act, commitments to make changes in U.S. laws, regulations and policies that are considered necessary and appropriate to ensure the continued competitiveness of the United States high technology industries, which change shall be considered by Congress . . ."

Most U.S. laws took many years of democratic process to enact and should not be abrogated in an overall negotiation on trade issues. In addition to these concerns about the bills, I will comment briefly on a few of the subjects listed in the announcement of these hearings. All raise so many important and varied issues that they deserve individual sets of hearings because they affect so much of the U.S. economy and the U.S. economy's place in the world of the future.

"Foreign government measures or policies which distort trade and investment flows."

As this statement has already noted, what appear to be trade distortions in services may in fact be considered essential in the foreign and U.S. economies. Such laws, policies and practices are also of great importance to the economy of the United States. Free trade is not the only issue involved when standards, requirements and other national provisions are established for the host of services which are provided in any economy. While the U.S. firms may object to the policies of foreign governments that require that nationals perform certain jobs, the U.S. laws and practices in federal, state and local laws may also—and properly require—U.S. personnel to perform similar jobs.

In addition, in technology, the policies of most governments seek to attract, maintain and develop technology within their nations for defense and economic purposes. If the United States seeks only to reduce foreign practices while the United States remains virtually open, the result will be the loss of the technology that is the basis for future development of advanced technology.

"The urgency of enforcing existing laws which are, in fact, adequate to deal with some trade and investment problems in the services and high technology industries and of improving those laws which are not adequate."

Until there is more testing of the adequacy of U.S. law through specific attempts to carry out existing provisions, no new laws should be enacted. For example, the Congress has already given the President power to use Section 301 to press for removal of unfair and discriminatory practices by foreign governments against U.S. services. Some cases have been brought. Until there is enough experience with these efforts on a case-by-case basis, there should be no overall effort to pass legislation that would encompass all of them generally.

"The problem of finding ways to improve monitoring capability in services and technology, when monitoring of trade in manufacturing is not adequately addressed."

The budget cutbacks and the reduction of data collection by the Reagan Administration have already adversely affected the capability of the United States government to assess trade flows in products. To move forward into the categories that are broadly described as "services" and "high technology products" without a budget is to ignore the reality that in today's climate, there is too little collection of information on trade generally.

In conclusion, the AFL-CIO believes that the United States deficit in merchandise trade, which reached about $40 billion last year, should call into question the further delegation of authority in new and unexamined subjects until much more detailed understanding of each part of each sector has been gathered by the Congress.

In short, Mr. Chairman, we appreciate your raising the issues and hope that this will be only the first of a great number of hearings on complex and crucial problems that affect every part of the U.S. economy and U.S. relations with the rest of the world.

Chairman GIBBONS. As I understand your statement, Doctor, you are not really opposed to a negotiation, but you are opposed to a broad, multilateral negotiation?

Mr. OSWALD. That is correct.

Chairman GIBBONS. You would like to negotiate with the other countries on a country-by-country basis?

Mr. OSWALD. Country-by-country or in some cases a much smaller sector, maritime, so we don't trade off things. The problems of airlines are significantly different than banking, and to put them all in one negotiation is premature.

We believe things may be addressed better in bilateral negotiations rather than overall multilateral negotiations. We should reexamine what progress has been made and what conformity has been made to the agreement we made at that time in the Tokyo Round, but I think putting a negotiating issue such as this on the table would unnecessarily distract the ministers from that reexamination.

Mr. Chairman, I believe that, if a bill comes forth from this committee, has a strong direction for multilateral negotiations, that we will be on such a treadmill that there becomes an automatic result that may or may not be really what the Congress had intended but people seem to be committed, that there is then a U.S. commitment that they have to get an agreement on services on a multilateral basis which may or may not been good for us, and we are the only ones that have the gun to us in terms of achieving those results, so that under those types of negotiations we are in a weakened position.

Chairman GIBBONS. Of course, it is not my aim, and I hope not the aim of our own delegates to the ministerial to in any way weaken the position that we have. Mainly, I would hope that we could establish a set of international rules to which we all adhere, that would give us a greater opportunity and not perhaps throw up as many barriers to the export of high technology and the export of services that have developed, and are developing, on a case-by-case basis around the globe.

That is what I would hope that we would do at this ministerial.

Mr. OSWALD. That is very important, but I am very concerned that in negotiations in banking, that we don't undercut our own responsibility of the Comptroller of the Currency over U.S. banks.

We just had a major problem in New York with one of the money funds going broke and being bought out by Chase Manhattan Bank. If that were a foreign bank that would have interrelated, what would have been the responsibilities of that foreign bank, and what would have been the obligations of the ability to maintain that large amount of money, some $180 million that are involved in the changes that were brought about by the default of that major corporation?

Similarly, on the insurance industry, each State insurance commissioner has the responsibility to make sure that there is sufficient funds to pay for claims.

If there are certain reserve requirements that are different for insurance companies in other countries, will those reserve requirements be sufficient to meet the type of exposure that corporations from abroad may enter into in selling insurance in the United States?

I think much of this homework has not been done, and needs to be done on a sectoral basis before we wholeheartedly embrace a multilateral negotiations in services.

Mr. SCHULZE. Thank you, Mr. Chairman. I have no questions, and I would like to thank Dr. Oswald for his presentation.

Chairman GIBBONS. Very good statement.

We now turn to the issue of services.

We have with us the Coalition of Service Industries, Inc., Mr. Joseph Neubauer, president and chief operating officer of ARA Services, Peter Finnerty, vice president, Sea-Land Industries, and Richard Rivers, counsel.

Mr. SCHULZE. I would like to welcome Mr. Neubauer. He is well-known for his corporate activities as well as civic activities, and we are proud to have him here.

STATEMENTS OF JOSEPH NEUBAUER, PRESIDENT AND CHIEF OPERATING OFFICER, ARA SERVICES, INC., AND PETER FINNERTY, VICE PRESIDENT, SEA-LAND INDUSTRIES INVESTMENT, INC., BOTH ON BEHALF OF COALITION OF SERVICE INDUSTRIES, INC.

Mr. NEUBAUER. I am Joseph Neubauer, and my company is a member of the newly formed Coalition of Service Industries, Inc., the first and only national organization representing the service sector of our economy, with member companies drawn from a wide range of service industries including banking, insurance, communications, shipping, and construction.

I am also president and chief operating officer of ARA Services, Inc., a multinational company with diverse interests in the human service sector, including food, health care, uniform rental, transportation, books and periodicals distribution services.

It is an honor to appear before you today on behalf of the coalition. Also appearing with me this afternoon are Peter Finnerty, vice president of Sea-Land Industries Investment, Inc., and Richard R. Rivers, of the law firm of Akin, Gump, Strauss, Hauer & Feld, our counsel.

I have a prepared statement and I would like to highlight it.

ARA has 110,000 employees, including 11,000 overseas. Unlike many of the members of the coalition, our international operations do not represent a large portion of our total operations, only $200 million or just under 7 percent of our total annual revenues of $3 billion.

However, we recognize that international trade in services is growing much faster than trade in goods. The United States has a clear leadership in providing the delivery and management of services around the world.

Yet this dominance is facing stronger and stronger challenges as other nations develop their own service expertise and technology and can further restrict our ability to expand the services we provide simply by increasing their trade restrictions and unilateral regulations.

The U.S. Government must provide a more favorable environment for growth and better understand the key role of the service sector, especially in the international marketplace. Otherwise, we may well see the U.S. service sector begin to wither and fade before the onslaught of foreign competition and advancement, just as has happened in manufacturing.

We can't let that take place. The service sector is an important part of the future of America's economy.

Mr. Chairman, passage of this legislation, H.R. 5383, the Trade in Services Act of 1982, is therefore of great importance. Let me reiterate what you and the members of your subcommittee know well, but what the American public may not know: The importance of the service sector to our economy.

The New York Times on May 18, 1982 recognized the stabilizing role that the U.S. service sector has played in counteracting the recession which has hit many of our manufacturing industries so severely.

I have attached to my testimony a copy of the article, headlined: "Services: Bucking the Slump—Employment in This Sector Has Gone Up." Much of our economic thinking in this country is a matter of conditioned reflexes, reflexes developed many years ago that desperately need to be modified.

Our Nation is oriented to the economic philosophies of a goods-producing nation. This is reflected in this country's economic policies and in the data we collect and discuss. It is reflected in our international trade negotiations and just about all phases of commerce.

Yet the facts are—and have been for some time—that we are no longer a predominantly goods-producing nation. Some 70 percent of the U.S. work force is now employed in the service sector, long the fastest-growing sector of our economy.

The service sector makes up 65 percent of our gross national product and accounted for a $40 billion surplus in our balance of foreign service trade last year. The volume of exported services is growing at twice the rate of exported goods and has given our overall balance of trade payments a surplus for the last 2 years.

Further, and more importantly, in the last 6 years, well over 26 million new jobs were created in the service sector. That represented 90 percent of the job growth in this country.

It is time the economic importance of services be recognized and that services be placed on an equal footing with goods under the law of this Nation.

Today, the United States has a service economy in a marketplace that is truly international. If we are going to make a national commitment to growth by getting our economy back on track again, offering more support to the service sector will give us a better opportunity to attain a greater share of world trade, generate higher export revenues and balance-of-trade payments, receive a quicker return on national investment, and create more new jobs at home by bolstering the efforts of the already-established world leader, the U.S. service sector.

In the international trade area, H.R. 5383 is an important step in that direction and a step which, with the minor reservations in my full remarks, the coalition is here today to heartily support.

The Trade in Services Act of 1982 would accomplish several critical objectives of high priority to the service sector. First, it would serve notice to our trading partners that the Congress of the United States has thrown its full weight behind the American service sector and the efforts of the executive branch in the international arena to bring services under the same liberal trading framework as goods.

These efforts, which have begun in the Organization of Economic Cooperation and Development, must move aggressively forward in the General Agreement on Tariffs on Trade and other fora.

Without such combined momentum, which passage of H.R. 5383 would provide, our trading partners will cease to take seriously the need for maintaining and improving a liberal world exchange in the service sector.

Nontariff barriers abroad, whether they be in food services with which I am particularly familiar, or in the many other service areas which our coalition represents, will continue to proliferate as nations seek to protect infant industries.

Such examples are: Highly technological such as data processing, or in established industries which have become accustomed to monopolistic or quasi-monopolistic status in their countries.

A sampling of service nontariff barriers reported to the U.S. Trade Representative is appended to my statement. Visible political support in the form both of these hearings today and passage of this legislation will signal to our trading partners the high priority which the United States attaches to the service sector and the liberalization of such barriers.

Second, and more specifically, H.R. 5383 will supplement the President's negotiating authority with a clear mandate from Congress which includes specific negotiating objectives for services.

Armed with this authority, the President's negotiators at the U.S. Trade Representative's Office will be able to attack and chip away at foreign barriers to service industries abroad.

A third reason for the coalition's strong support of this bill, and a reason which is closely related to the above longer term objectives, is the impact which passage of this legislation will have on the GATT Ministerial Conference to be held in Geneva this November.

This conference is the first since the one held prior to the opening of the Tokyo round nearly a decade ago. It is a once-in-a-decade opportunity to herald the importance of the service sector and the need for the GATT to begin earnestly a work program in this area. We strongly support the administration's efforts to place services at the front of the GATT ministerial agenda.

A fourth reason, Mr. Chairman, for the coalition's support of this bill is its provision making it crystal clear that section 301, the unfair trade practices provision of the Trade Act of 1974, covers services, including suppliers of services.

H.R. 5383 will erase any doubt of this point, which could arise in future section 301 cases. Let me add at this time that the coalition urges continued strong administration of this important provision of our unfair trade laws and hopes that section 301 may in the future be used as effectively or even more effectively in the service sector.

Mr. Chairman, if the United States is to maintain its competitiveness in the world market, it must come through both the modernization of our manufacturing capabilities and the recognition that in order to maintain our international leadership in the highly competitive and rapidly expanding service sector, we have to strengthen our advantages while they are still advantages.

We must support areas of proven growth. We must plan now for the industries of the future. One such area of growth and potential for jobs and economic expansion is the service sector.

I recently discussed this topic before the membership of Town Hall in Los Angeles in remarks entitled "The Service Industry: Maintaining the Competitive Edge." Because of its pertinence to this legislation, I have submitted a copy of this speech, which, with your permission, we would like to become part of the record of this hearing.

Chairman GIBBONS. We will make it part of the record, yes, sir.

Mr. NEUBAUER. Thank you.

I would like to also mention that we at ARA plan a private-sector institute to study the problems of the service sector, and it will be endowed fully from private funds.

This concludes my remarks on behalf of the service industries, and I would be pleased to answer any questions.

[The prepared statement and attachments follow:]

STATEMENT OF JOSEPH NEUBAUER, MEMBER, COALITION OF SERVICE INDUSTRIES, INC.

Good afternoon, Mr. Chairman, I am Joseph Neubauer, and my company is a member of the newly-formed Coalition of Service Industries, Inc., the first and only national organization representing the service sector of our economy, with member companies drawn from a wide range of service industries including, banking, insurance, communications, shipping and construction. I am also President and Chief Operating Officer of ARA Services, Inc., a multinational company with diverse interests in the human service sector, including food, health care, uniform rental, transportation, books and periodicals distribution services. It is an honor to appear before you today on behalf of the coalition. Also appearing with me this afternoon are Peter Finnerty, Vice President of Sea-Land Industries Investment, Inc. and Richard R. Rivers, of the law firm of Akin, Gump, Strauss, Hauer and Feld, our counsel.

ARA has 110,000 employees, including 11,000 overseas. Unlike many of the members of the Coalition, our international operations do not represent a large protion of our total operations, only $200 million or just under seven percent of our total annual revenues of $3 billion.

However, we recognize that international trade in service is growing much faster than trade in goods. The United States has a clear leadership in providing the delivery and management of services around the world. Yet, this dominance is facing stronger and stronger challenges as other nations develop their own service expertise and technology and can further restrict our ability to expand the services we provide simply by increasing their trade restrictions and unilateral regulations.

The United States government must provide a more favorable environment for growth and better understand the key role of the service sector, especially in the international marketplace. Otherwise we may well see the U.S. service sector begin to wither and fade before the onslaught of foreign competition and advancement—just as has happened in manufacturing. We can't let that take place. The service sector is an important part of the future of America's economy.

Mr. Chairman, passage of this legislation, H.R. 5383, the "Trade in Services Act of 1982," is therefore of great importance. Let me reiterate what you and the members of your Subcommittee know well, but what the American public may not know: The importance of the service sector to our economy. The New York Times on May 18, 1982 recognized the stabilizing role that the U.S. service sector has played in counteracting the recession which has hit many of our manufacturing industries so severely. I have attached to my testimony a copy of the article headlined: "Services: Bucking the Slump—Employment in This Sector Has Gone Up" Much of our economic thinking in this country is a matter of conditioned reflexes, reflexes developed many years ago that desperately need to be modified. Our nation is oriented to the economic philosophies of a goods-producing nation. This is reflected in this country's economic policies and in the data we collect and discuss. Its reflected in our international trade negotiations and just about all phases of commerce.

Yet the facts are—and have been for sometime—that we are no longer a predominately goods-producing nation. Some 70 percent of the U.S. workforce is now employed in the service sector, long the fastest growing sector of our economy. The service sector make up 65 percent of our Gross National Product and accounted for $40 billion surplus in our balance of foreign service trade last year. The volume of exported services is growing at twice the rate of exported goods and has given our overall balance of trade payments a surplus for the last 2 years.

Further, in the last 6 years, well over 26 million new jobs were created in the service sector. That represented ninety percent of the job growth in this country.

For years, Mr. Chairman, many of our beleagured goods-producing industries have been getting both media attention and Washington aid—attention which they need to modernize and regain their competitive position and capacity. But, the fact of the matter is, it has been the service sector which has silently surged ahead, in big firms and small, here and abroad, to play an ever-growing role in our economy, in our daily lives, and in our potential for future economic growth.

It is time the economic importance of services be recognized and that services be placed on an equal footing with goods under the law of this nation.

Yes, we must assist and maintain the capability of our manufacturing industries. But our real growth is already coming from and will continue to come from the ever-growing service sector.

Today, the United States has a service economy in a marketplace that is truly international. If we are going to make a national commitment to growth by getting our economy back on track again, offering more support to the service sector will give us a better opportunity to attain a greater share of world trade, generate higher export revenue and balance of trade payments, receive a quicker return on national investment, and create more new jobs at home by bolstering the efforts of the already-established world leader—the U.S. service sector. In the international trade area H.R. 5383 is an important step in that direction and a step which, with the reservations express below, the Coalition is here today to heartily support.

The Trade in Services Act of 1982 would accomplish several critical objectives of high priority to the service sector. First, it would serve notice to our trading partners that the Congress of the United States has thrown its full weight behind the American service sector and the efforts of the Executive Branch in the international arena to bring services under the same liberal trading framework as goods. These efforts, which have begun in the Organization of Economic Cooperation and Development ("OECD"), must move aggressively forward in the General Agreement on Tariffs on Trade ("GATT") and other fora. Without such combined momentum, which passage of H.R. 5383 would provide, our trading partners will cease to take seriously the need for maintaining and improving a liberal world exchange in the service sector. Non-tariff barriers abroad, whether they be in food services with which I am particularly familiar, or in the many other service areas which our Coalition represents, will continue to proliferate as nations seek to protect infant industries. Such examples are: highly technological such as data-processing, or in established industries which have become accustomed to monopolistic or quasi-monopolistic status in their countries. A sampling of service non-tariff barriers reported to the U.S. Trade Representative is appended to my statement. Visible political support in the form both of these hearings today and passage of this legislation will signal to our trading partners the high priority which the U.S. attaches to the service sector and the liberation of such barriers.

Secondly, and more specifically, H.R. 5383 will supplement the President's negotiating authority with a clear mandate from Congress which includes specific negotiating objectives for services. Armed with this authority, the President's negotiators at the U.S. Trade Representative's Office will be able to attack and chip away at foreign barriers to service industries abroad. These negotiations may take place on either a bilateral or multilateral basis. In the latter context, H.R. 5383 will authorize the President to begin to develop internationally agreed rules including dispute settlement procedures, in the service sector. Such rules no doubt will be developed in the context of the GATT. While negotiations to develop multilateral rules on services will be a long and arduous process, as they were in the case of developing internationally agreed rules for trade in goods, that process nevertheless must at least commence. In addition, this bill will affirm that the "fast-track" congressional approval provision of Section 151 of the Trade Act is available for any service trade agreements the President may conclude. The Section 151 fast-track provision proved its value well in the Tokyo Round of multilateral trade negotiations.

A third reason for the Coalition's strong support of this bill, and a reason which is closely related to the above longer term objectives, is the impact which passage of this legislation will have on the GATT Ministerial Conference to be held in Geneva this November. This conference is the first since the one held prior to the opening of the Tokyo Round nearly a decade ago. It is a once-in-a-decade opportunity to herald the importance of the service sector and the need for the GATT to begin earnestly a work program in this area. We strongly support the Administration's efforts to place services at the front of the GATT Ministerial agenda.

A fourth reason, Mr. Chairman, for the Coalition's support of this bill is its provision making it crystal clear that Section 301, the unfair trade practices provision of the Trade Act of 1974, covers services, including suppliers of services. H.R. 5383 will erase any doubt of this point, which could arise in future Section 301 cases. Let me add at this time that the Coalition urges continued strong administration of this important provision of our unfair trade laws and hopes that Section 301 may in the future be used as effectively or even more effectively in the service sector.

The Coalition also supports Section 5 of the bill, placing the U.S. Trade Representative office in the central role of coordinator of U.S. trade policy in services. Such a central coordinating body is essential to coherent implementation of a service trade policy, and the USTR has demonstrated its skill and activist's attitude in this area. At the same time the Coalition supports Section 5's grant of authority to the Commerce Department actively to promote service industry opportunities abroad and to improve service sector data collection and analysis. Our studies show that of the fifteen priority sectors to which eighty percent of the Commerce Department's export promotion funds are granted, not one of these is a service sector. Passage of H.R. 5383 would help remedy such discrimination in our export promotion policy. Our Coalition also attaches high priority to improvement of services data collection both domestically and internationally, a goal which this part of the bill will advance.

H.R. 5383 contains two provisions about which the Coalition has some concern. The first is Section 8, which would require independent regulatory agencies such as the Federal Communications Commission or the Interstate Commerce Commission to "take into account the extent to which United States suppliers are accorded access" to a foreign market in a service sector when such independent agencies are developing policies for access of those foreign suppliers to the U.S. market in the same service sector. While it is not clear what "taking into account" would involve, the Coalition would not wish to see this provision resulting in the regulatory agencies independently making trade policy judgments in the service sector. This role, as we have said, should be centralized and coordinated with the U.S. Trade Representative's Office, and indeed Section 5(b) of this bill would require the independent agencies to notify the USTR and seek this advice when U.S. service industries raise with those agencies foreign service access issues. We believe this latter provision is sufficient and we urge that the Subcommittee consider deleting Section 8 altogether.

In addition, we advise that the Subcommittee delete Section 6, which would add a subsidization and unfair pricing provision to Section 301 of the Trade Act of 1974. We believe that this language is unnecessary, since Section 301 as it is covers such unfair trade practices. In addition, determining subsidies or unfair pricing in the service sector could prove highly complex and difficult. Pursuing such cases might also result in foreign countries bringing similar retaliatory cases against U.S. service industries, so that the entire provision might backfire in the end. For those reasons the Coalition recommends dropping Section 6.

Mr. Chairman, if the United States is to maintain its competitiveness in the world market, it must come through both the modernization of our manufacturing capabilities and the recognition that in order to maintain our international leadership in the highly competitive and rapidly expanding service sector, we have to strengthen our advantages while they're still advantages. We must support areas of proven growth. We must plan now for the industries of the future. One such area of growth and potential for jobs and economic expansion is the service sector.

I recently discussed this topic before the membership of Town Hall in Los Angeles in remarks entitled "The Service Industry: Maintaining the Competitive Edge." Because of its pertinence to this legislation, I have submitted a copy of this speech which, with your permission, we would like to become part of the record of this hearing.

Mr. Chairman, this concludes my remarks this morning on behalf of the Coalition of Service Industries, Inc. I would be pleased to answer any questions you may have.

[ATTACHMENTS]

EXAMPLES OF FOREIGN DISCRIMINATION AGAINST SERVICE INDUSTRIES—REPORTED TO THE U.S. TRADE REPRESENTATIVE'S OFFICE

ACCOUNTING

Argentina.—Requirement that local audits be supervised by locally registered and qualified accountants, and audits must be signed by them.

Brazil.—Required that all accountants possess the requisite professional degree from a Brazilian University.

France.—Pressures to require that French citizens own more than 50 percent of accounting firms.

ADVERTISING

Argentina, Australia, Canada.—Radio and T.V. commercials produced outside of the country are forbidden.

Canada.—Income Tax Act prevents expenditures for foreign broadcast media along with foreign publications from being treated as a business expense for tax purposes.

AIR TRANSPORT

France.—French government has refused to allow foreign carriers to participate in the government sponsored Muller-Access Reservation system, while foreign participation in Air France Alpha II Reservation System is restricted to non-competitive rates.

Chile.—National carriers are given preferential user (landing and other) rates, while foreign carriers are not. This places foreign companies at a competitive disadvantage.

AUTO/TRUCK RENTAL AND LEASING

Mexico.—U.S. trucks are required to reload at borders while Mexican trucks travel directly through.

BANKING

Austria.—Policy since 1945 allows foreign banks only representative offices in Australia. Foreign equity participation in commercial banks limited to less than 10 percent.

Nigeria.—Local incorporation of existing and new branches mandatory.

Venezuela.—1975 General Banking Law. Foreign banks new to Venezuela are limited to representative offices. Already established banks forced to reduce their equity participation to 20 percent.

FRANCHISING

Japan.—Foreign franchisors are not allowed to restrict franchise from handling competitive products.

HOTEL AND MOTEL

Switzerland.—Work permits for foreign employees are difficult to obtain, extend or renew.

MARITIME TRANSPORTATION

Total percent of U.S. commerce shipped on domestic bottoms has fallen from 11 percent in 1960 to less than 5 percent in 1980. This is due to a variety of problems, including foreign barriers. Lack of coordinated U.S. policy is equally detrimental to U.S. shipping interests.

MODELING

Germany.—Requires all models be hired only through German agencies.

MOTION PICTURES

Egypt.—Imports made through state owned commercial companies. No foreign films may be shown if Egyptian films are available.

France.—Restrictions placed on the earnings of foreign films.

TELECOMMUNICATIONS, DATA PROCESSING AND INFORMATION SERVICES

Brazil.—International links for teleprocessing systems are subject to approval by the government. The principle criteria used in evaluating requests for data links: (1) protection of Brazilian labor market; (2) protection of operations of national firms and organizations. All data links approved are reviewed for renewal.

Germany.—International leased lines prohibited from being connected to German public networks unless the connection is made via a computer in Germany which carries out at least some processing.

International leased lines available only if it is guaranteed that they are not used to transmit unprocessed data to foreign telecommunications networks.

Spain.—Fifty-seven percent import duty on equipment available locally.

[From the New York Times, Tuesday, May 18, 1982]

SERVICES: BUCKING THE SLUMP—EMPLOYMENT IN THIS SECTOR HAS GONE UP

(By Karen W. Arenson)

It is easy to count cars and trucks rolling off assembly lines and ingots of steel being poured. So as production of manufactured goods has slumped, the depth of the recession has seemed alarmingly clear.

But the very visible plunge in manufacturing somewhat overstates the distress of the economy. For most of the widely followed economic indicators ignore the myriad of services—from medical care to banking to advertising—that account for about two-thirds of America's economic activity.

Although these less visible products of American labor are more difficult to measure than manufactured goods, they have played a major role in cushioning this recession's impact, as they have in so many other business cycles.

A STABILIZING FACTOR

"The service sector is very much a stabilizing factor for the economy," said Irving F. Leveson, director of economic studies at the Hudson Institute. "Service industries tend to have much less fluctuation in employment than goods-producing industries. And to a lesser extent, they also have less fluctuation in wages and production."

Of course, not all service businesses are recession-resistant. Some, such as the airlines, have clearly been hit hard in recent months. But while employment in the manufacturing sector tumbled by 1.3 million jobs between July 1981 and April 1982, employment in the service-producing sector rose by 217,000 jobs.

"Not every service industry is going up, and not every manufacturing industry is going down," said Samuel M. Ehrenhalt, the regional commissioner of labor statistics in New York for the United States Department of Labor. "But even though this is one of the more severe recessions in the postwar period, and even though this recession is well past middle age, we still are having jobs gains in white-collar jobs, and in services in general."

Service-producing companies have also been important in foreign trade. Although sometimes dismissed as "invisible trade," sales of services abroad have helped keep America's balance of trade positive.

"Banking and other service sector contributors enabled the United States to turn last year's $28 billion merchandise trade deficit into a $7 billion current accounts surplus," said Walter B. Wriston, chairman of Citicorp.

There is no simple way to define services. They encompass a wide range of activities, including transportation, public utilities, wholesale and retail trade, finance, health, education, business services and entertainment. Even Government is thrust under the service heading. Despite the many differences among these activities, however, economists find it useful to look at them as a group, as distinct from the four goods-producing sectors of the economy; manufacturing, mining, construction and agriculture.

Surprisingly, the service sector has accounted for more than half of all jobs in the United States since at least the 1920's. But while the percentage of manufacturing employment, composed heavily of blue-collar jobs, has shrunk steadily during this century, the percentage of employment in the services, made up largely of white-collar jobs, has grown steadily. Today, the service sector accounts for about 72 percent of the nation's total employment and 67 percent of its economic output.

Perhaps the most important reason for the huge growth in services is that productivity gains in manufacturing and in agriculture have enabled fewer people to produce more goods, thus freeing many to move into service jobs. And America's growing affluence has allowed consumers to purchase the food, clothing and other goods they need and have an increasing amount of money left for services.

The movement of women into the labor force has also increased the appetite for services. Not only has it meant extra income to be spent on restaurant meals, cleaning services, and even child care, but it has also made these services more important.

The Recession-Resistant Services Sector

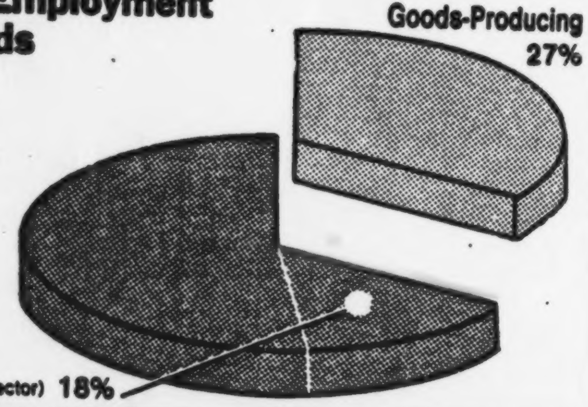
	Peak Prerecession Employment (July '81 in 000's)	Current Employment (April '82 in 000's)	Change (in 000's)	Percent Change
Transportation and Utilities	5,167	5,100	- 67	-1.3%
Wholesale Trade	5,360	5,301	- 59	-1.1%
Retail Trade	15,436	15,552	+ 116	+0.8%
Financial, Insur., Real Estate	5,344	5,371	+ 27	+0.5%
Other Services*	18,642	18,952	+ 310	+1.7%
Private Sector Services	**49,949**	**50,276**	**+ 327**	**+0.7%**
Government	15,992	15,882	- 110	-0.7%
Services Total	**65,941**	**66,158**	**+ 217**	**+0.3%**
Mining	1,132	1,151	+ 19	+1.7%
Construction	4,272	4,026	- 246	-5.7%
Manufacturing	20,535	19,258	-1,277	-6.2%
Goods-Producing Total	**25,939**	**24,435**	**-1,277**	**-5.8%**

* Includes employment in the following industries: health, education, legal, data processing, advertising, credit and collections, lodging and hotels, personnel placement, and amusement.

Source: Bureau of Labor Statistics

Dividing U.S. Employment Between Goods And Services

April 1982 data for nonagricultural payrolls



The New York Times/May 18, 1982

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BUSINESSES TURN TO SERVICES

A similar appetite for services had developed in the business sector. Many companies, for example, are shifting to outside concerns for automobile fleets, legal work or payroll computation. (Under a statistical quirk, a lawyer—or any other employee—working for a manufacturer is counted as being in a manufacturing job, while the same person working in the same job for a law firm or another service concern is considered a service sector worker.)

While some of the recessionary strength in services undoubtedly comes from its long-term growth, there are services that appear to fare well during downturns. When people postpone purchases of automobiles, appliances and other goods, they do not necessarily cut back equally on purchases of services.

This difference in consumer purchasing patterns has been reflected in spending over the past year. Purchases of services rose by 12 percent between the first quarter of 1981 and the first quarter of 1982, while purchases of consumer durables fell slightly and purchases of nondurables were up by only 6 percent.

"Goods are storable, so during a recession, people keep using the ones they have," explained Victor R. Fuchs, a professor of economics at Stanford University, who is widely know for his research on the service economy. "People don't stop using refrigerators, they just don't go out and buy new ones." In contrast, he noted, services cannot be stored. If they are needed, people must continue to purchase them in a downturn.

DIFFERENT APPROACH TO LAYOFFS

There are, of course, services that are more luxuries than necessities, such as restaurant meals or travel, that may be reduced in periods of financial strain. Unlike manufacturing companies, however, which accumulate inventories and then lay off workers until stocks are worked down, the service sector cannot do business if it lays off all its workers since it cannot inventory its product.

So while employment in some services may edge down a bit, there generally are not the mass layoffs found in manufacturing. If a hotel or a restaurant wants to stay in business, its staff must be there every day.

Mr. Leveson of the Hudson Institute added that many service employers feel less pressure to dismiss people since their salaries often do not represent fixed costs, but are paid in tips or commissions.

That is not to say that service businesses are entirely protected from downturns. As Edward Guay, chief economist at the Cigna Corporation, said in an interview, "A service business can overexpand and misallocate capital, just as in manufacturing."

One service sector that has not held up well during this recession is government. Between July 1981 and April 1982, Federal employment fell by 60,000 jobs, to 2.7 million, while state and local government employment declined by 50,000 jobs, to 13.2 million.

Despite the seeming vitality in the overall service sector, industry executives caution that its growth could be hampered by trade barriers imposed by other countries. American companies in the service sector earned about $60 billion in foreign revenues in 1980, according to an estimate by Economic Consulting Services Inc.

"The foreign markets have become very important for certain service businesses," said Ronald K. Shelp, vice president for international relations for the American International Group Inc. Among these, he said, are telecommunications, data processing, advertising, insurance and hospital services.

But while American companies now account for about 20 percent of total world trade in services, their market share has been shrinking. And service sector executives are asking the Government to pay more attention to policies affecting their industries.

The Service Industry: Maintaining the Competitive Edge

by Joseph Neubauer
President,
Chief Operating Officer
ARA Services, Inc.

A speech
before
Town Hall
of California,
Los Angeles

ARA
services

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"The American economy is in difficulty—much deeper than the current recession."

Good afternoon . . .

We all know the American economy is in difficulty—to a degree much deeper and larger than the current recession. The continued erosion of the American economy is having a serious impact on the ability of U.S. businesses to compete in the world marketplace; to provide continuing employment; and to sustain major growth.

The growth rate of U.S. Gross National Product has continued to decrease, especially in comparison to our foreign trade partners. In fact, the seasonally adjusted GNP for the fourth quarter of 1981 actually fell at an annual rate of 5.6 percent and is expected to continue to decline in the first quarter of 1982, a stagnant trend in our economy which has stretched over several years.

Growth in disposable personal income in the U.S. is lagging drastically behind most other industrial countries; and in January, real weekly gross take-home pay for American workers fell from the 1967 average level of $185 to $164. That means in terms of real earnings in 1982 our workers have $21 less in their paychecks to spend on goods and services each week than in 1967.

Unemployment continues to mount. The loss of jobs put nearly one million Americans out of work between last July and November alone. Statistics show that almost all of that loss was in the manufacturing sector of the economy.

On the international scene, we have lost considerable export market share to foreign competitors.

In the 1960s, our world market share dropped 16 percent. In the '70s, it dropped another 23 percent, even though the dollar was depreciating 40 percent in value, making our exports cheaper and

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foreign imports more expensive. Since 1970, a $2.6 billion surplus in goods exported over goods imported has deteriorated into a $27.8 billion deficit in our manufactured goods balance of trade last year. This decrease in international market share is estimated to have meant a loss of two million industrial jobs in this country.

Automobile production continues to limp along. Some 91,000 cars were produced during the last week of February 1982 compared to 131,000 the same time a year ago (a bad year) and to the 142,000 average during 1967. That's a 40 percent drop.

Imported cars registered account for nearly one out of three new cars sold.

Last year, the steel industry finally chalked up some significant profits, but at the expense of drastically reduced capacity and employment. This voluntary industry shrinkage may serve the short-term interest of the steel industry, but further illustrates the growing loss of the industrial dominance of the U.S.

The U.S. aerospace industry, once a bastion in the world market, is seeing its international domination challenged. Exports of $18 billion last year were up only 6 percent in real dollars compared to a real gain in imports of 13 percent. In fact, in the last five years aerospace imports soared from $575 million to $3.7 billion —a seven-fold increase!

These declines in the role of the manufacturing portion of our economy will not recover as the recession ends—they began before the current recession and will continue beyond it. This change marks a fundamental shift in the structure of our economy from domination by manufacturing to domination by services.

Today, some 57 percent of our GNP comes from the service sector.

"This change marks a fundamental shift in the structure of our economy to domination by services."

Over six out of every 10 American workers are employed by service companies, and service sector employment is expected to jump to over seven out of 10 by the end of the decade. As recently as 1950, services accounted for less than half of overall U.S. employment.

Some view this change with alarm. It is pointed out that historically, productivity growth has been slower in the service sector than in manufacturing; that services have a smaller multiplier in employment creation than

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industrial jobs; and that services lack the export potential of goods.

These issues are complex, and I am not here to argue that an economy devoted exclusively to services would be a healthy one. But services will inevitably play a larger and larger role in our economy, and recent improvements in the performance of the sector demonstrate its ability to contribute substantially to the recovery and sustained growth of the U.S. economy.

Tremendous advances in technology, management techniques, and growth in national and international service management companies are offering quantum leaps in productivity, and quality of services offered.

In fact, our current recession would be much deeper if it weren't for the positive impact of the service sector.

"Our current recession would be much deeper if it weren't for the positive impact of the service sector."

First, the service industry is extremely diverse. Service workers range from security guards, to nursing home specialists, to business consultants, doctors, lawyers and computer programmers.

Within this non-homogeneous mixture are industries, such as health care and computer software, which are booming, and others, such as real estate and travel, which are depressed.

This very size and diversity has dampened the impact that the recession would have had on an economy dominated by manufacturing. If the economy were still reliant on a few large hard goods producers, many more American workers would now be unemployed.

Instead, the service industry not only absorbed the millions of factory workers displaced by modern machines or declines in production, but has also given jobs to many women, minorities, and "baby boom" youth who entered the workforce for the first time in growing numbers.

Consumer spending for services is less sensitive to business cycles, as evidenced during the 1970-75 recession when durable goods spending was down 7.2 percent, while personal consumption on services actually increased by 2.3 percent.

Additionally, while manufactured exports have taken a disastrous beating at the hands of foreign competitors, the service industry has had significant, and yet unheralded, gains in exports.

"The service sector is responsible for two successive years of positive balance of trade."

In fact, the service sector is responsible for two successive years of positive balance of trade and a stronger U.S. dollar overseas. According to the Commerce Department, the export of U.S. knowledge and expertise resulted in a $40 billion service trade surplus in 1981 and put our overall balance of payments some $12 billion in the black.

It may surprise you but our two biggest foreign competitors, West Germany and Japan, are net *importers* of services, and this combined with other imports, contributed to the fact that they had a negative balance of payments last year.

Yet, despite the significant contributions of the service sector in terms of employment, GNP and foreign trade, almost all attention has been focused on the problems of the industrial sector.

Instead of looking to where our economic strengths lie—industries where real growth gains are more likely—our policy makers have concentrated on our areas of weakness.

So I have chosen to talk today about "The Service Sector: Maintaining the Competitive Edge" because our best opportunity to attain a greater share of world trade, generate higher export revenues, receive a quicker return on national investment, and create more new jobs at home, is by bolstering the efforts of the already-established American service industries.

To be sure, the industrial sector must be modernized to increase productivity and efficiency. I am confident that the American industrial leadership will do that and will do it without the kind of public subsidy suggested by those who advocate the "re-industrialization of America" through major government involvement.

Yet, I believe not enough research and recognition have been focused on the impact of the service sector on our economy, nor its future potential.

"We must broaden our national focus to those industries which offer the best opportunities for long-term growth."

If we look to expanding opportunities, rather than just solving problems, then we must broaden our national focus and direct our efforts to those industries which offer the best opportunities for long-term growth and greatest return on investment.

A dollar invested in the service sector has its multiplier effects.

And with an expected 72 percent of Americans employed by the service sector by 1990, there should no longer be any doubt where the future growth of our economy lies.

The service industry *is* a large part of America's economic future. To strengthen this advantage, we need to recognize the importance of services as a trade commodity. This offers several significant benefits.

Our service companies have already proven themselves both domestically and overseas, and are in a strong position to expand their present leading role. Our comparative advantage currently lies in our service capability.

The service industry is already in place and performing well. As a nation, we should make certain that trade barriers, tariff and non-tariff, are reduced, that government policy recognizes the importance of services, and that tax policy gives the same investment and R and D incentives to services as to manufacturing. The service sector has grown tremendously, almost unnoticed; now is the time for notice to be taken, for government to recognize the significance of services.

The re-industrialization debate, practically ignoring services, has been cast as a "winners vs. losers" issue. Many foreign countries, including our major competitors, support "winners," while the United States is often accused of supporting "losers."

I think that is too harsh an over-simplification. What we're really talking about is the "ailing" and the "healthy" and it is not a mutually exclusive choice. We have to support, aid and encourage both so the ailing can regain their economic vigor and the strong can continue to grow and expand.

And the assistance must be timely—well before the "ailing" has become a terminal case or the "healthy" has lost its potential for growth.

To this end, I am suggesting that services be given the same public policy attention received by the rest of the economy. It is in the service sector that job creation will occur in the future, in computer and information services, engineering, biogenetics, food service, personal and health services, in education services, and in financial services.

"Ninety percent of the job growth in the past years has been in the service sector."

To emphasize that point, an amazing 90 percent of the job growth in the past six years—well over 26 million jobs—has been in the service sector.

Why did this growth take place? And how did the U.S. develop such a strong competitive edge over other countries?

As personal income rises, people devote more and more of the increases to services. And since the U.S. has had a high per capita income, demand for services has been growing. In 1981, for example, the percentage of real personal consumer dollars spent on durable goods decreased, while the amount on services increased dramatically. Last year, we spent over $230 billion (in constant 1972 dollars) on durable goods, but over $880 billion on services. That's nearly four times as much.

This demand has lead to specialization within the service industry and a greater efficiency in production and delivery of services.

Now, as incomes rise in other countries, their demand for services is increasing as well. Over the past three years, the world trade-in-services has been increasing more than twice as fast as trade in goods. This has created tremendous opportunities for the U.S. in the export of services, as evidenced by our dramatic balance of payment surpluses.

However, our advantage may not last for long. Rising-incomes increases in foreign countries will increase their need for services, and they will not need to wait until they reach the current U.S. per capita level of GNP to experience the transition U.S. service industries are going through.

These service sector techniques and management practices can be learned and copied just as they have been in manufacturing. The international transmission of knowledge is happening at an accelerating rate as more detailed knowledge and experience is gained in the relatively new field of service management.

> **"The international transmission of knowledge is happening at an accelerating rate in service management."**

Our company, ARA, entered a joint venture with Mitsui & Co., Ltd., which gave us an entry into the Japanese market by providing food service at their corporate headquarters in Tokyo. We are training Japanese managers in our Philadelphia headquarters. They buy these training services from us because we have systems and expertise developed over several decades in providing food service at a level far above the norm in Japan.

For example, we recently started providing dietary food services at a Japanese hospital—the same kind of service we've been providing in this country since 1952, but in Japan it was revolutionary. There it had been—and still is in most hospitals—customary for the families to bring meals in for the patients.

We recently introduced Coffee System—installing and servicing coffee brewers in small offices—in Japan. Again something totally unheard of, yet we have them in 84,000 office locations in this country.

This phenomenon of service expansion and adaptation is happening around the world. And soon, the competition for these services is going to grow more fierce as foreign competitors learn, utilize and perhaps even improve on the techniques they have learned from us.

As demand grows and service knowledge becomes more widespread, challenges to our current competitive advantage in international service will also grow more intense. This is exactly what happened to our manufacturing dominance. Our technology and innovation were copied, improved upon, and used against us to beat us at our own game because we didn't work to keep up, let alone stay ahead. I strongly favor the transfer of knowledge, because I firmly believe it serves the world well. Thus, our job is to maintain, better still to sharpen, our competitive edge.

I am delighted that U.S. service companies have taken steps to confront the challenge facing them by recently organizing the Coalition of Service Industries. ARA fully intends to play its part in this new organization.

A prime mover behind this has been American Express Chairman James Robinson, who recently warned that "the potential for growth in U.S. service exports is tremendous, as long as foreign markets remain open. Barriers, both visible and invisible, to trade services are in place and growing. As the world economy undergoes service strains, the barriers will multiply."

I agree with Mr. Robinson. Previously, the General Agreements on Tariffs and Trade have focused on barriers to merchandise trade. When the next round of multinational trade talks begin in Geneva, the U.S. will be pressing the subject of restraint of trade, and service trade barriers will receive equal attention.

I am delighted, too, that our national legislators are beginning to recognize the importance of the service sector. Very recently legislation was introduced in the House and Senate which will provide, if adopted, a clearer focus on the needs of the service sector.

The new Coalition of Service Industries should carefully examine this legislation and, where needed, improve it. I applaud its introduction. It will contribute to what I believe is a growing and healthy national discussion about the role of services in the American economy and its impact on foreign trade.

The service industry is steadily maturing in its operational approach, expanding and becoming more professional. National service management companies are applying their management, technical and operational techniques across industry lines. (This by the way is why ARA can effectively manage food services, hospital emergency rooms, uniform rental, airport services, interstate trucking, and child care centers, among others.)

"The service industry is one in transition."

The industry is one in transition—change brought about by growth and a learning process that will mean better, less-expensive, broader service, with standardized delivery and higher quality and performance. Its very size and diversity have worked to hide the tremendous impact this sector is having on our national economy.

There is also a great need for better data on the service industry. The current industrial code used by the Commerce Department is strongly skewed in favor of the goods producing sector. In fact, the 1980 edition of the U.S. *Industrial Outlook* devoted only eight percent of its space to the services. And then, all services were excluded from its projections beyond the current year, while manufacturing was projected over three years.

ARA Services has grown from a $20 million vending operation to a $3 billion international diversified service management corporation with 110,000 employees, and yet there are few of the industry codes which are used by government to collect data about the economy which fit the individual lines of business which we conduct. Even the FORTUNE 500 list does not include companies like ARA, or even AT&T.

"We must become committed to economic expansion."

In the same way, the productivity data collected and analyzed by the Bureau of Labor Statistics lacks the precision and quality of that done for the manufacturing sector. In part that is because of the inherently more difficult task of measuring service outputs, but it is also because the Bureau of Labor Statistics has simply not devoted the necessary resources to perfecting their service output measures. As another example, there are 10,000 different classifications for reporting imports and exports in goods. Yet, only six classifications exist for reporting service transactions.

Industry, our universities, and government need to keep better track and develop more appropriate mechanisms to monitor the production and distribution of services and thereby create more knowledge and understanding of the role of services in our economy. This is why ARA is examining the possibility of establishing an academic-based institute devoted to the study of the service sector, with emphasis in its early years on productivity improvement.

So, the question facing us today is: "How can this national resource, the service sector, be expanded at home and abroad, become more productive, and be utilized more effectively as a competitive tool?"

The answer lies with us all—with government, with business, and with the service industry itself. We've been used to an ever-growing economic environment. Growth has always paid the bills for social programs and a better quality of life.

That growth has stopped—and even declined. To get it going again, we all must become committed to expansion. Business will always need to do better, to grow, to expand. But government, in its taxing, monetary and regulatory policies, is also a major influence. It sets the rules and the tone under which business must operate.

Competitive advantage must be a central economic goal. Policies are needed with emphasis on growth—without growth those goals which may depend on some redistribution of income become impossible. Lack of growth over the past decade has seen the U.S. standard of living decline (based on per capita GNP) from first to tenth place.

"Services represent unlimited growth, because the demand for services will never be filled."

As the dominant force in the economy, the service sector has the responsibility to keep itself modern and growing. And that means developing the technology and management techniques to increase productivity and maintain our advantage over foreign competitors which are learning more each day—from us.

Only recently has new technology been applied to service industries which are generating major advances in service system development.

We are also seeing the results of past steps taken in management and training only now coming to the forefront in increased productivity. The service industry is a people industry. It is labor-intensive in employment and person-oriented in its delivery.

Service is a personal thing. It is still primarily a one-to-one relationship. It can involve such diverse factors as the speed of a computer print-out to the smile on a face. And managing the delivery of that service is a critical function. We at ARA serve 10 million people everyday and we serve them one at a time.

Service companies have continuously invested a great deal in employee training. We are now starting to see the payoff of that investment in job experience and better services.

America is also seeing goods-producing companies emphasizing services. Today, IBM is not selling its computers as much as it is selling the services and systems that go with them. Its competitors can match its machines, so IBM has developed a competitive edge in the services it offers to its customers.

Today, service and production are intertwined more than ever. And that's why it is so critical to recognize the extent to which service contributes to output and growth, in both sectors of our economy.

The competitive edge . . . the cutting edge of change . . . the forefront of innovation and ideas. American industry has always been right there, as a leader, a catalyst, and as an example to the rest of the world.

Yet, the U.S. has seen its competitive edge and economic dominance eaten away around the world and even assaulted in the domestic marketplace.

The service industry is in a position to stop this decline abroad and offer more growth here at home.

Services represent almost unlimited growth opportunities because the demand for services will never be filled. Unlike the need for manufactured goods, which are finite, research, technology and innovation will continue to open new doors for the delivery of services and even more employment within the service industry.

In meeting that demand, the U.S. has already built up a significant competitive advantage in the export and delivery of services and service systems around the world. We cannot afford to let this advantage slip away as we did with our manufacturing capabilities.

The "bottom line" has been the catch phrase for the '80s. If we maintain the competitive edge, the bottom line will take care of itself. If not, it will be on the ledger books of companies across the seas.

"We cannot let our service advantage slip away as we did with manufacturing."

One final note: the service sector represents hope for the future. ARA uses this tag line in its advertising: "The world will never outgrow its need for service." I happen to firmly believe that. Not just the services ARA provides but the vast and steadily increasing services a growing legion of American companies are providing.

Mr. FINNERTY. I have a few brief comments to add, if I may.

Sea-Land is in the ocean shipping business and ocean shipping is an important international service industry, vital to America's international defense and international trade division.

Sea-Land Service, Inc. is the world's largest container shipping company and operates 40 U.S.-flag containerships without benefit of Federal maritime subsidy. We also operate 20 smaller foreign-flag feederships and have substantial added investment in 81,000 containers and 46,000 chassis.

Sea-Land provides regular service between over 120 ports in 50 countries and territories. In 1981, Sea-Land's gross revenues exceeded $1.6 billion.

Sea-Land is the largest of nine major U.S.-flag liner shipping companies engaging in international commerce. In addition, numerous American companies operate hundreds of dry and liquid bulkships in international commerce throughout the world. The collective activity represents billions of dollars per annum.

H.R. 5383 is welcome legislation to strengthen U.S. Government efforts on behalf of American service industries competing in the global economy. Approval of the bill is needed to overcome barriers to U.S. service industry market access abroad, growing foreign government intervention and a deterioration of services market shares due to deficiencies in U.S. policy.

Competitor nations discriminate and impose various unfair trade practices.

American marine insurance underwriters have compiled a list of 39 countries that discriminate in that service sector alone. Japan and European countries announced last year that they intend to ratify a Code of Conduct for Liner Conferences developed under the auspices of UNCTAD in Geneva.

The UNCTAD Liner Code, taken with other initiatives of the UNCTAD Secretariat, move worldwide liner shipping away from open market competition toward inefficient and discriminatory government economic control. It is expected that the UNCTAD Liner Code will enter into force later this year.

Many individual countries have taken steps to interfere in private-sector shipping markets in advance of the Code through adoption and enforcement of rules which encourage, and give preference to, use of their national flag vessels for transport of imports and exports.

In addition, private ownership of the means of international ocean commerce is disappearing. More and more governments are becoming owners and operators of liner fleets or direct investors in partnership with citizens of their countries. Such state-controlled carriers are not profit motivated and can offer unfair competition against private enterprise carriers.

H.R. 5383 will provide significant clarification of U.S. Government authority to apply section 301 when U.S. retaliation may be warranted. The executive branch also needs clear authority to negotiate intergovernmental agreements for service industries, especially liner shipping.

Intergovernmental liner shipping agreements are the only feasible U.S. counterproposal to the UNCTAD Liner Code. Unilateral attempts at governance of the international marketplace by other countries of the United States cannot maintain healthy and competitive conditions over the long term.

Passage of H.R. 5383 will be of substantial benefit to ocean shipping and other U.S. service industries. Sea-Land respectfully urges the subcommittee to approve the bill as soon as possible.

Chairman GIBBONS. Thank you.

Mr. Rivers, do you have a statement?

Mr. RIVERS. No statement for the record, Mr. Chairman.

Chairman GIBBONS. Both of you were here when the AFL-CIO testified a while ago. The thrust of their testimony, as I recall, is that it is not going to help us in producing jobs, because we don't know where we are going and we don't know what we want, and we would be better off, if we understood all of that, to do it on a bilateral basis.

What is your response to that?

Mr. NEUBAUER. Mr. Chairman, we in our particular case in industry have created a significant number of jobs here in the United States, particularly in Pennsylvania, which involve design of service systems in the food industry to be utilized in many, many other countries.

We also have devised several delivery systems in the health care area currently being used in foreign countries, so that many, many jobs were created in this country and continue to be created in this country due to our ability to export our technology to foreign countries. Trade barriers to such arrangements which we have encountered in various countries, both tariff and nontariff barriers, hamper the job creation here in the United States.

As far as not knowing exactly where we are going, it is always true that when one embarks on a new venture, one does not know all its ramifications. That is certainly no excuse for not embarking on the adventure, and probably as one in any negotiation enters without knowing the full extent of the exact outcome of the negotiation, that should not be a reason for not entering in the negotiations.

Mr. FINNERTY. Mr. Chairman, I would like to point out that one of the industries, one of the sectors that Dr. Oswald referred to was the maritime industry, and it is that area that I know well.

I would emphasize that there is nothing mutually exclusive about proceeding with the bill and the GATT ministerial meeting and movement toward, over the next several years, a multilateral approach that would create uniform international rules, on the one hand, and initiating bilateral discussions in maritime or certain other sectors earlier than that or concurrently with such proceedings.

I don't think that there is anything in the bill that would prevent that from happening. It would help it move forward.

We definitely need that approach. Ultimately, a multilateral framework is preferable. It is a superior trading environment.

Chairman GIBBONS. You caught me off guard, because I was not prepared for what you were about to say about the UNCTAD arrangement. Go over that again.

Mr. FINNERTY. The UNCTAD Secretariat in Geneva has taken a particular interest in the service industries as one of the prime opportunities for developing countries through governmental action to try to reserve a portion of those economic sectors to their countries, and to industries in their countries.

Linear shipping was chosen by them in which they drafted the first convention ever produced by that Secretariat, and it now has received an endorsement by something like 50 foreign countries. It needs one or two of the Western countries such as Japan or West Germany to ratify in order to trigger its entry into force.

It is a document that differs very, very substantially with our laws in the United States with respect to shipping, and would be a marked departure from the kind of principles that have existed in OECD shipping activities for years.

The Europeans and the Japanese last year indicated to the UNCTAD Secretariat that they are going to proceed with endorsement and ratification of that convention, and to date, the U.S. Government has not announced what step it intends to take as a countermeasure.

In our opinion, the only way that the United States will be able to retain anything like the environment that we have today which entails basically open access and competitive markets with an allowance for private enterprise decisionmaking is to create a bilateral or multilateral framework in which foreign governments will agree not to interfere in the market.

If the United States continues to remain passive in the face of the growth of this international convention, the control of the shipping market is going to be turned over to foreign governments, and it is another reason why this legislation makes sense.

Chairman GIBBONS. It points up also that unless we begin to move, UNCTAD and the other U.N.-type agencies are going to move in. While they are highly motivated, I do not really identify myself with their motives. I think we are going to see a form of world socialism practiced through those auspices, and that worries me.

Mr. FINNERTY. Yes, sir.

Chairman GIBBONS. Mr. Neubauer, I hate to ask you this. I don't know what kind of business you do. You are in the services business, but I missed that.

Mr. NEUBAUER. We are in the services management business. We are in the provision of food services. That is a wide range of service all the way from food service at schools and colleges to hospitals, to industrial clients throughout the land, to various organizations right here in Washington such as the Pentagon, Justice Department, et cetera.

We are also in the health care business. We operate nursing homes and child care businesses. We are in the transportation business, and we are in the book and periodical distribution business, and the textile uniform distribution and we employ 110,000 people, including 11,000 overseas.

Chairman GIBBONS. Overseas?

Mr. NEUBAUER. 11,000 overseas; yes sir. We are a very highly labor-intensive organization.

Chairman GIBBONS. How much of your 110,000 do you think, are involved in exporting services?

Mr. NEUBAUER. Well, the direct number is difficult to measure, because as I mentioned before, the various research and development that goes on isn't differentiated between domestic and international research and development. The provision of the overseas services such as I described, Mr. Chairman, is a fairly new phenomenon that has grown in the last 5 to 10 years, and our entire industry itself is only about 25 years old.

I would say a significant and growing number of our people are involved in overseas ventures and the technology and the export of know-how that comes from this country from the job creation here gives us a competitive edge in such areas. We just won the contract to operate Wimbley Stadium outside of London. It is very interesting to have an American company through its United Kingdom subsidiary operate in a British football match on Sunday afternoon.

Chairman **Gibbons**. Fish and chips?

Mr. **Neubauer**. And some other American foods. It is a fast-growing area and one that we are very proud of. We were also selected by the various Olympic game committees to be the technical experts to them on food technology, both in the Olympic games in Montreal, and the one in Mexico City, and the most recent winter games in Lake Placid. I am happy to say we are also going to provide the technology to the 1984 Olympic games in Yugoslavia, so that we are providing a lot of technology throughout the world.

Chairman **Gibbons**. Very interesting. Thank you very much.

Mr. Stark, would you come forward, please. We will take you next.

STATEMENT OF HON. FORTNEY H. (PETE) STARK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. **Stark**. Thank you, Mr. Chairman.

I am pleased to appear in support of two proposals to expand trade in the areas of America's greatest potential and growth—services and high technology.

First, on services.

Last year, I sponsored H.R. 3848, the House version of the Inouye-Pressler bill, which basically requires the Department of Commerce to pay more attention to trade in the services sector. As you know, we usually run a $25 to $40 billion trade deficit in merchandise, but our balance of payments is somewhat saved by the $30 billion surplus which we accumulate in services.

Services is clearly the wave of the future; it is often very high technology and based on our ability to massage information or offer quality financial services. We need to remove barriers to our potentials for growth in this sector. While much work has been done in services trade in the past few years, and while the administration is to be congratulated on making this an issue for the fall GATT Ministerial Conference, a lot more work needs to be done.

I believe that the introduction of this bill and its recent passage in the Senate has helped insure continued, priority attention to this sector.

However, because the bill I first put in, H.R. 3848, made the Department of Commerce the lead agency in working on services, it was referred to five committees—which is the best way to kill a bill that I know of. Therefore, this spring, I redrafted the bill, concentrating the services sector work in the USTR. I believe that the

USTR could do a more efficient job—and I also hoped that this would cause the bill to be referred only to your subcommittee. Unfortunately this new bill, H.R. 5690, was also referred to House Foreign Affairs. Still, that is better than five referrals.

Mr. Chairman, your bill on services, H.R. 5383 is more forceful than either of my bills or the recently passed Senate bill, in that it more clearly brings the services sector into the section 301 process. While the section 301 process has not been the tiger many of us in the Congress had hoped, it at least has come claws and teeth.

Therefore, I support the enactment of Chairman Gibbons' bill first, and my bill, H.R. 5690, second. But in any event, I believe it is important that the House pass a services bill this year, to indicate congressional interest in this growth sector.

One technical note. Since introducing these bills, representatives of U.S.-flag carriers have indicated that we should include in the definitions of services "operations and maintenance of aircraft at foreign airfields."

Let me turn to the high technology trade issue.

This spring, Chairman Gibbons, myself, and many in the California congressional delegation introduced H.R. 5579—a strong bill requiring fair trade in the key high-technology sectors, such as semiconductors, electronics, communications, et cetera.

That bill caused the entire electronics industry to focus on the long-festering problems of high-tech trade and Japanese competition, and out of this, a new bill has just been developed, H.R. 6436 and H.R. 6433.

Because the original bill, H.R. 5579, had elements of "reciprocity," it will undoubtedly be controversial and subject to a lot of criticism. The new versions should be much less controversial, in that they stress "national treatment."

Let me say that I think a tough bill is what is needed. Japan—MITI, the Economic Planning Agency—are committed to a high technology future, to an information society. They realize, much better than we do, that these are the industries of the future. In a world of increasing concern about pollution and increasing shortages of materials and energy, high-tech industries are the only industries that make sense for an educated society. They have staked the future of their nation on superiority in these sectors. They will play hardball on trade in these sectors in ways that will make their intransigence on beef and oranges look like child's play.

We will need to be equally tough—both in trade and in developing internal domestic policies designed to promote the growth of the high-technology sectors.

In sum, I believe it is essential that we pass a high-tech trade bill this year. To me, either bill would be useful. H.R. 6436 and 6433 are less controversial and therefore perhaps easier to pass. What is important is that something pass and that it be administered with vigor.

Failure to be tough in trade and in promoting high-tech industries will be fatal to the future growth opportunities of our Nation. Your subcommittee's recent trip report to the Far East states the danger and why we must respond:

> * * * if Japan becomes the world leader in high technology products, she will be driving us. She will control when certain technologies and processes—including

those important for defense—can leave Japan. She will become the low-cost producer in any area she wants; she will be able to target industry after industry, thus placing irresistible pressures on the Congress to extend a web of Voluntary Restraint Agreements and Orderly Marketing Agreements to more and more products.

In addition to enacting some form of high-tech trade legislation this year, I hope your subcommittee will continue to stress the need for better domestic policies to make the United States more competitive. I would like to call your attention to several such bills:

H.R. 5532, to make the 1981 R. & D. tax credits permanent and to make the repeal of the section 861 allocation regulations permanent.

H.R. 5573, to speed the process of computer familiarity by encouraging corporations to donate computers to elementary and secondary schools.

H.R. 6435, to provide a tax credit for a 5-year period for the expenses of collecting high-tech data in certain countries, such as Japan and Germany.

A coordinated trade and tax approach to the high-tech sector can help insure that the United States remains competitive and does not fall to second-rate economic status. As chairman of the Select Revenue Measures Subcommittee, I would like to work with you in such a coordinated approach.

I am happy to answer any questions.

Chairman GIBBONS. I am happy to hear your concern on where we are going.

You know, we have a terrible agenda facing us this year, and one of the things we are going to have to do is fight for agenda space. Sometimes trade matters get left out because tax matters seem to have a higher priority, but in the long run, these trade matters are extremely important. You can only catch them at certain times, and it is important for us to get moving.

Anyway you can help me move this a little higher on our agenda, it would be greatly appreciated.

Mr. STARK. I would be happy to help, either by not endorsing your activities or working for them.

Chairman GIBBONS. That is a generous offer. Thank you.

Our next witness is Mr. Jim Shannon, who is a Member of Congress from Massachusetts and a distinguished member of this committee. We welcome you.

STATEMENT OF HON. JAMES M. SHANNON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. SHANNON. Let me apologize at the outset for not being here earlier.

Chairman GIBBONS. You explained to me the reason and I understand.

Mr. SHANNON. I want to thank you, Mr. Chairman.

I appreciate the opportunity to come here today and talk about one of the single most important trade issues of our generation.

I am here to ask for support of H.R. 6433, the High Technology Trade Act of 1982, which you and I and 18 of our colleagues introduced last week.

Why a High Technology Trade Act? Why do we need a pro-free trade bill affecting one of America's most vital and growing industries? In recent years this part of our economy has been growing at just a tremendous rate. That is the good news.

I can tell you as one who represents an area that was previously depressed, the American economy is seeing the effects of that growth.

The bad news is that we have got some very tough competition headed our way. And so far, this Government has done nothing about it.

The goal of this bill is to insure that we do do something. Its goal is to insure that we and other nations trade in an environment where high technology can prosper.

This bill aims for an open market so that foreign barriers to the sale of our high-tech products are removed. No other category of trade is so dependent upon open international markets. No other is so threatened by the restrictive policies of other countries.

At this very moment, our Nation's current advantage in the high-tech area is slipping away. It is happening because foreign governments simply will not allow us equal access and equal business opportunity. The High Technology Act will change that.

It gives the President, for the first time, the authority he needs to negotiate on high-tech issues. It sets up a monitoring committee so that we will be always aware of what is happening internationally in the high-tech area.

And where trade barriers exist, this committee will work with the President, the Secretary of Commerce, and the U.S. Trade Representative to get rid of them. America's thriving high-tech industry is not seeking protection. Just the opposite.

They know that curbing freedom of trade and investment prevents thousands of businesses and engineers from being part of a worldwide exchange. An exchange which is essential if the high-tech firms of all nations are to flourish.

Yes, our own interest is unquestionable. There is probably no other category of products more important to the United States.

All we are asking for is the opportunity to compete, fairly and squarely. That can't happen now. For years we have stood idly by, while the Japanese and others have grown increasingly protectionist. For them, it has been a matter of national policy. For us, national policy has meant avoiding the problem.

We can do so no longer. Through a variety of tariff and nontariff barriers, through the use of special treatment and exclusionary performance requirements, our competitors are literally killing free trade for American firms.

We know what has happened in the past. If we don't act now, our high-tech industry could be ruined. We have seen it in steel, and we have seen it in autos. Let's not see it in high-tech, too.

H.R. 6433 will insure that at last we have a policy that prevents such economic disaster. This legislation will bring about the open markets that the high-tech industry needs to survive.

It will mean saving thousands of jobs, and it will keep an essential part of our economy strong and healthy. Mr. Chairman, I thank you for your time. I ask you and all my colleagues to join me in taking this long overdue action.

Chairman GIBBONS. We will need all the support we can get when we get this bill out of subcommittee and on the full committee's agenda, and so I am sorry you are no longer a member of this subcommittee. But you are equally as important to me and to this legislation being on the full committee.

Mr. SHANNON. I hope I will be back on this subcommittee before too long, and I want to say that I think that we have a tendency here in the Congress to address illnesses only after they become terminal and what we have got to try to do is get ahead of this one and not let happen to the high-tech area what has happened to other industries in the United States.

Various industries involved with high-tech recognize this problem, and are thinking ahead 3 or 4 or 5 years down the road.

I want to thank you for your leadership in this area.

Chairman GIBBONS. I think you know the attitude of the high-tech industries has been outstanding. They have anticipated a problem and are going ahead to tackle it before it becomes a serious catastrophe. It is obvious that areas such as your own, where emphasis upon education has been high, and California, where emphasis has been very high on education and on technology, are the areas that are moving ahead. We welcome your leadership.

You have a fine bill. I am glad to join you and hope we can turn it into law this year.

Mr. SHANNON. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

We will next have a panel of the Chamber of Commerce of the United States, the U.S. Council for International Business, and the International Engineering and Construction Industries Council; Mr. Shelp, Mr. Freeman, and Mr. Hodge.

Mr. Shelp, you are the first.

STATEMENT OF RONALD K. SHELP (VICE PRESIDENT, AMERICAN INTERNATIONAL GROUP), VICE CHAIRMAN, INTERNATIONAL SERVICES AND INVESTMENT SUBCOMMITTEE OF THE CHAMBER OF COMMERCE OF THE UNITED STATES, ACCOMPANIED BY GORDON CLONEY, DIRECTOR, SPECIAL POLICY DEVELOPMENT

Mr. SHELP. I would like to give an oral summary. Of the chamber's 240,000-member organizations, over 160,000 are service establishments, which suggests something about the importance of services in the U.S. economy.

Thus, we are cognizant of the trade problems of the service sector as well as the issues facing the business community at large.

Our comments today deal with trade policy and services industries. However, I should note there seems to be some confusion over the relationship between services legislation and reciprocity legislation.

We see the two as separate issues. Service legislation is to bring service industries fully within U.S. trade policy on a par with manufacturing and agriculture. Reciprocity legislation is addressing market access issues.

The U.S. Chamber supports H.R. 5383 subject to one reservation having to do with section 8.

Since 1974, the chamber has devoted much attention to trade legislation as it relates to our service industries. The growth of barriers to trade in services clearly justifies the pioneering authorities to negotiate reductions in such barriers provided by the Congress in 1974 and strengthened in the Trade Agreements Act of 1979.

Based upon experience to date, we feel that this coverage is incomplete. And the mandates of the USTR and the Commerce Department need to be set out more clearly.

We believe that H.R. 5383 addresses the principal current shortcomings as follows:

Presidential negotiating authorities: Services need to be given a priority equivalent to that given merchandise and agricultural products. H.R. 5383 addresses this need and the chamber supports this.

Barriers to establishment: We feel that barriers to establishment of U.S. service enterprises in foreign countries are within the realm of "barriers to international trade" as that term is used in section 102 of the Trade Act of 1974.

However, arguments are made that establishment-related issues are not covered and legislative clarification is needed. Sections 4 and 10 of H.R. 5383 include provisions to this effect. We support them.

The definition of services is usefully clarified in H.R. 5383, section 10. We note the timeliness of mentioning information flows in this subsection. We support this.

However, we suggest this definition also include protection of the right to commercial information itself. Explicit reference to the need to achieve fair treatment of industrial property rights through international negotiations would be in the U.S. commercial interest at a time when traditional standards for protecting such rights are being eroded throughout the world.

Consultation by U.S. negotiators with the private service advisory committees when developing negotiating objectives is necessary. H.R. 5383 addresses this need in section 4(c). The chamber supports this.

State regulators must be part of any negotiations dealing with the services they regulate. Provisions to this effect are made in H.R. 5383, section 4 (b)(1) and (b)(2) which we support.

Central coordination of U.S. service trade policy is absolutely essential. The coordination of service policy is complex, because not only Cabinet departments are involved; regulatory agencies also are part of the picture. Consequently, the problem is a delicate one.

We believe the USTR should have the lead responsibility and the authority to inform and involve Federal departments and agencies in service trade policy formulation and negotiation.

The coordination process must be two way. Federal departments and agencies responsible for service sector activity and regulation should advise the USTR of pending trade matters, in particular, of allegations of unfair practices by foreign governments or service companies. And they should consult with the USTR prior to the disposition of such matters.

The relationship between the regulatory agencies and USTR should be essentially consultative. The USTR does not need authority to dictate regulatory decisions. However, when acting to remedy unfair trade practices, the final, primary decisionmaking should lie with the USTR acting for the President.

Otherwise, we do not have a coordinated trade policy.

Thus, we support sections 5 (a) and (b) of H.R. 5383 which would strengthen overall policy coordination.

In further reference to Federal regulatory agencies, we suggest section 8 be deleted from H.R. 5383 because it has come to be viewed as a reciprocity provision. We do not support sectoral or regulatory reciprocity in services trade.

Clear Department of Commerce accountability for administering a program of work to support the USTR lead in service trade negotiations and to carry out service trade promotion is necessary.

The Department of Commerce has just gone through the third reorganization of its service functions in 4 years. The trend to date has consistently been to improve service trade programs in quantitative and qualitative terms.

However, the absence of legislative mandate also means that future reorganization could be used to reduce or eliminate these strengthened programs. As it would assure permanency of Commerce work in services over time, we support section 5(c) of H.R. 5383.

We believe the remedies under section 301 of the 1974 Trade Act as amended envisage the imposition of a fee or restriction on a supplier of a service in addition to restrictions on the service itself. But this is another area where there has been confusion, and clarification is needed as you provide in the bill.

Subsidization and unfair pricing: Equality of treatment under U.S. trade laws requires providing U.S. service industries a form of redress from injurious subsidized competition or unfair pricing by foreign suppliers as has been provided goods and commodity export firms for over 80 years.

We believe that section 301 as amended is intended to address subsidies and unfair pricing in the service sector. Yet, in practice, questions have been raised about executive branch willingness to apply this section in such cases.

Clarification of section 301 may be needed to resolve uncertainty and we support H.R. 5383, section 6, which provides needed clarification.

In conclusion, the U.S. Chamber feels that the United States must continue a single-minded effort to bring service trade barriers to the multilateral and to the bilateral negotiating tables.

And, the General Agreement on Tariffs and Trade must undertake a work program that will set the stage for a GATT round of multilateral negotiations on services.

We consider passage of this legislation an important step in achieving those goals.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF RONALD K. SHELP, ON BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

I am Ronald K. Shelp, vice president, American International Group, and vice chairman of the U.S. Chamber's International Services and Investment Subcommittee. With me is Mr. Gordon J. Cloney, director, special policy development, U.S.

Chamber of Commerce and executive secretary of the Subcommittee. We appreciate the opportunity to be here.

The Chamber of Commerce of the United States is the largest federation of business and professional organizations in the world, and is the principal spokesman for the American business community. The U.S. Chamber represents more than 240,000 members, of which more than 235,000 are business firms, more than 2,800 are state and local chambers of commerce, and more than 1,300 are trade and professional associations.

Over 85 percent of the Chamber's members are small business firms having fewer than 100 employees, yet virtually all of the nation's largest industrial and business concerns are also active members. Besides representing a cross-section of the American business community in terms of firm size, the U.S. Chamber also represents a wide spectrum by type of business. Such major individual sectors of American business—manufacturing, retailing, construction, wholesaling, finance and other services—each have more than 15,000 businesses represented as members of the U.S. Chamber. Thus, we are very cognizant of the trade problems of the service sector as well as the issues facing the business community at large.

The U.S. Chamber supports H.R. 5383 subject to one reservation having to do with Section 8. This is addressed subsequently in this testimony. We agree with the author that service trade should be expanded and barriers reduced; that addressing service trade issues needs to be fully integrated into U.S. trade policy and the process coordinated through the Office of the United States Trade Representative (USTR).

BARRIERS TO TRADE IN SERVICES

Service industries are heterogeneous. They deal in advertising, accounting, architecture, banking, insurance, air transport, lodging, licensing, education, entertainment, leasing, franchising, investment and finance, construction, communications, data transmission, information, shipping, motion pictures, tourism and other services.

The diversity of service "products" and the widely differing processes which create them often leads to the conclusion that barriers to trade in services must be equally diverse and a multilateral, multi-industry approach to the trade barriers affecting services is not possible. The Chamber has reviewed this, concluding the different services, as varied as they are, do face common trade barriers which are very similar in nature to nontariff barriers in merchandise trade. These barriers to services amount to unfair trade practices because they are used by a service importing economy to protect the country's local service industries and market.

Defining service trade barriers requires a broader conceptual framework than is the case with merchandise trade. Some barriers affect services provided through international trade, that is, when the service is provided from a source in the exporting country to a consumer or client located in the importing country. However, barriers also affect service trade carried out through "establishment;"—that is they impact on the setting up and/or the operation of the local branch or subsidiary which may be essential to doing business in a particular service industry. Also, governments may require establishment by the foreign service firm for ease of regulation even though the firm's service could be provided on an "international trade" basis.

American service industries are encountering growing barriers both in developing and industrial countries. In spite of the diversity of the service sector, many of the obstacles faced are common and, in many cases identical—whether services are supplied through trade or through local establishment of subsidiaries, branches, etc. Furthermore, barriers are looming over some of the new, heretofore unrestricted and high potential service activities, such as information transmittal, electronic communication, and transportation data flows. Also, in certain service areas where international arrangements once protected international commerce, for example, in the acquisition and protection of industrial property rights, the traditional protections are being eroded and ignored.

Major types of barriers to trade in services, both barriers to "international trade" and to "establishment" can be grouped as follows:

Interference with access to market.—The provision of a service may be blocked by a country prohibiting across-the-border importation of a service and/or by denying the foreign service enterprise the right of establishment. Other less blatant protectionist practices—for example, discriminatory licensing and registry of foreign service firms—can have the same effect of blocking market access.

Interference with transactions and financial structure.—Regulatory practices can be used to slow or block international transactions by foreign service firms. Discriminatory taxation or tariffs may create barriers. Issuance of foreign exchange can be denied both to service firms and to clients purchasing a service. Unreasonable discriminatory requirements may be applied to capital structure, ownership and financial management of establishments.

Interference with access to production inputs.—Foreign service firms may be denied access to necessary equipment; visa restriction may limit access to foreign personnel or access to producer services sourced outside the importing economy may be denied. Or, access may be restricted by local content requirements, performance requirements, or employment quotas. Proprietary information, industrial property rights, processes, or know-how used by a firm may not be protected.

Interference with marketing.—Sales by foreign service enterprises may be subject to quotas or restrictions which limit their range of commercial activity. Technical or other standards may be used to block foreign services sales. Marketing practices by foreign service firms may be curtailed or prohibited. Government procurement opportunities may be denied. Contract arrangements with local customers may be unenforceable. Monopolistic arrangements by local private sector companies may, with official cognizance, close a service market to foreign competitiors or official policies may also restrict sales to national or other selected companies.

Trade-distorting Government behavior.—The provision of most services is heavily regulated and this offers great opportunity for interference with the trade of foreign service companies through discriminatory, protectionist behavior by regulators. Protectionist regulatory behavior may be formal, based upon law or written regulation, or it may be achieved indirectly through pettifogging, delay or other arbitrary practices by officials. Also, government-controlled services or government facilities that are made available to local competitors may be denied to foreign firms or made available on less favorable terms. Susidization of national service firms can skew competition in domestic markets and in third country markets. Such subsidization may make it possible for the national firm to offer its services at prices that would otherwise be uneconomic and to sustain the operating loss for indefinite periods of time.

The widespread use of barriers to trade in services clearly justifies the pioneering authorities to negotiate reductions in such barriers provided by the Congress in 1974, authorities that were restated and strengthened in the Trade Agreements Act of 1979. Legislation to further strengthen U.S. policy toward multilateral negotiation to reduce barriers is needed. And, it is important that our trading partners know the Congressional intent remains firm.

SERVICE TRADE PROMOTION

The Chamber supports a comprehensive centrally coordinated trade policy. The question of discriminatory practices and barriers is the defensive aspect. There is a second aspect—the promotional challenge which service industries and the government face together. This challenge comes from competitor nations where, using "fair" practices, the governments have done a much better job of promoting and advancing their service trade than we have. These governments, often in countries having modest service trade accounts, have recognized what we, with a $38 billion surplus in our services account, have taken for granted—the major role service companies play in trade, in balance of payments accounts, and in support of a country's general economic well-being.

The Chamber has reviewed the area of service trade promotion by the U.S. government and has reached several conclusions.

First, service trade promotion must be a priority on a par with manufacturing and agricultural trade promotion. We understand the Administration is taking steps to bring this about.

Second, many existing U.S. promotion programs now focusing on goods can be adapted to include services. This is important in a time of tight budgets. New programs should be developed on a shared-cost basis.

Third, the country specialist staff within the Commerce Department and the overseas staff of the U.S. Foreign Commercial Service have not been directed to support services (e.g. develop leads, build a body of foreign market information, etc.) with the same vigor they are expected to support manufacturing and agricultural exports.

Finally, financing for service trade appears deficient but more analysis is needed. The Export-Import Bank, U.S. agencies monitoring the multilateral development banks, and the Agency for International Development do not seem to give services sufficient attention. U.S. service trade potentials are not factored into their strategies nor are the service opportunities the programs create given sufficient attention.

TOWARD STRENGTHENED LEGISLATIVE AUTHORITIES

The Chamber, through several task forces and policy groups, has devoted considerable attention to the adequacy of U.S. trade law as it relates to the problems and needs of our service industries. We feel that in general such coverage is incomplete. The mandates of the USTR and the Commerce Department need to be more clearly set out. In general, radical surgery is not needed to address these shortcomings which are discussed below.

Presidential negotiating authorities now cover services. However, services need to be given a trade priority equivalent to that given merchandise and agricultural products. A clear congressional directive to the President to seek agreement in service trade as a principal objective under Section 102 would prevent services from being virtually ignored in any future negotiations as occurred during the past Tokyo round. Section 4(a) of H.R. 5383 addresses this need.

Barriers to establishment present a potential negotiating problem. While we feel that barriers to establishment of U.S. service enterprises in foreign countries are within the realm of "barriers to international trade" as that term is used in Section 102 of the Trade Act of 1974, arguments have been made that establishment related issues involve investment, not trade, and therefore are not covered. Legislative clarification is in order, we feel, to prevent any potential problem. Sections 4 and 10 of H.R. 5383 include provisions to this effect.

Definition of services are usefully clarified in H.R. 5383, Section 10. We note the timeliness of mentioning information in this subsection. We support this and further suggest that this definition include restrictions on the right to commercial information including industrial property rights. Explicit reference to the need for fair treatment of industrial property rights in service trade negotiations would be important and in the U.S. commercial interest at a time when traditional standards for protecting such rights are being eroded throughout the world.

Consulation by U.S. negotiators with the private advisory committees while negotiating objectives are being developed is necessary. This would take the advisory process a step further than was the case during the Multilateral Trade Negotiations (MTN) when, as a rule, negotiating objectives were not developed jointly although the advisory committees were kept informed of negotiating developments. H.R. 5383 addresses this need in Section 4(b)((3).

State regulators must be part of any negotiations dealing with services they regulate. The USTR should consult with the states before the U.S. sets its negotiating strategies or decides on methods of implementation. Provision to this effect are made in H.R. 5383, Section 4 "(b)(1)" and "(b)(2)."

Central coordination of U.S. trade policy is absolutely essential in the Chamber's view. This applies equally to policy affecting merchandise and services. The coordination of services policy is the more complex, however, because not only cabinet departments are involved. A number of independent regulatory agencies also are part of the picture. Consequently, there is a need for coordination and the problem is a delicate one. We believe the USTR should, through the Trade Policy Committee and its Subcommittees, have the lead responsibility and the authority necessary for involving federal departments and agencies in service trade policy formulation and negotiation.

The coordination process must be two-way. Interested departments and agencies must keep the USTR informed of developments affecting trade in services. Federal departments and agencies responsible for service sector activity including its regulation in the U.S. should advise the USTR of pending matters involving: (1) the treatment accorded United States service sector interests in foreign markets, or (2) allegations of unfair practices by foreign governments or enterprises in a service sector and proposed disposition of such matters.

The relationship between the regulatory agencies and USTR is essentially consultative and USTR should not have authority to dictate regulatory decisions. By the same token, the agencies consulted by USTR on service sector trade policy developments (including any negotiating strategies) should not have primary responsibility for trade policy formulation. Particularly when addressing unfair trade practices, the final decision must lie with the USTR, acting for the President. Otherwise, we do not have a coordinated trade policy.

We support Sections 5 (a) and (b) and 7 (b) and (c) of H.R. 5383 which provide for such overall coordination.

In further reference to federal regulatory agencies, openness of foreign country markets should be a consideration in agency decision-making, together with the other criteria considered by the agency, although we do not support sectoral or mirror image reciprocity in U.S. regulatory proceedings or in services trade. Because it has come to be viewed as a reciprocity provision and, hence, controversial, we suggest Section 8 be deleted from H.R. 5383.

The Department of Commerce accountability for carrying out a program of work to support the USTR lead in service trade negotiations and to carry out service trade promotion (for which Commerce has the lead) is necessary. The Department of Commerce has just gone through the third reorganization of its service function in four years. Although the trend to date has been to improve service trade programs, in qualitative and quantitative terms, the absence of a clear legislative mandate means that frequent reorganization could in the future be used to reduce or eliminate service trade programs. Hence, to assure permanency over time, we support Section 5(c) of H.R. 5383 which would authorize the Secretary of Commerce to establish a service industries development program designed to promote U.S. service exports, and collect and analyze information concerning international trade in services and U.S. service sector competitiveness. The responsibilities of the Secretary of Commerce in this area should complement the trade policy formulation and coordinating role of the USTR. In carrying out the mandate of Subsection 5(c), the Secretary should take great care not to impose unnecessary or burdensome reporting (or other) requirements on service sector enterprises.

Section 301 of the 1974 Trade Act provides for the imposition of "fees or other restrictions" on the services of foreign countries in the U.S. market to retaliate against foreign trade practices which are either unjustifiable or unreasonable and which burden U.S. commerce. This provision is, we believe, intended to cover the imposition of a restriction on a supplier (actual or potential) of the service through, for example, a denial of a request for a license to operate, in addition to restrictions on the service itself. But because a question on this point has been raised, we support Section 7, Subsection (a) of H.R. 5383 which would amend Section 301 to expressly include foreign suppliers in the U.S. market.

Subsidization and Unfair Pricing. We feel that equality of treatment of trade in services and trade in products under U.S. trade laws requires providing service sector industries a form of redress from injurious subsidized competition or unfair pricing by foreign suppliers. While such problems may not exist for some service sectors (e.g. banking), in other areas (e.g. air transportation), subsidized competition and below cost sales have caused significant problems.

While we believe that Section 301 as amended is fully intended to address subsidies and unfair pricing in the service sector, in practice questions have been raised about executive branch willingness to apply this section in such cases. Clarification of Section 301 may be needed to resolve this situation. H.R. 5383 addresses this issue in Section 6 which we support.

In conclusion, the U.S. Chamber feels that Congress, U.S. industry, and the Administration must continue a single-minded effort to bring service trade barriers to the multilateral negotiating table. The General Agreement on Tariffs and Trade (GATT) must undertake a work program that will set the stage for a round of multilateral negotiations. During the second half of this decade, such negotiations should begin the process of subjecting barriers to trade in services to rules and constraining procedures just as was done to merchandise trade barriers. This process will be no easier than was the effort in barriers to trade in merchandise and in commodities. Precisely because the process cannot be seen as rapid or simple, we must move from the analytic to the negotiating stage.

We are grateful for the opportunity to present these views. Trade in services is an area of great importance. We compliment this Subcommittee and the author of H.R. 5383 for considering means to enhance related U.S. policy. We urge positive action on H.R. 5383 this year if at all possible.

Chairman GIBBONS. Mr. Freeman?

STATEMENT OF HARRY L. FREEMAN, SENIOR VICE PRESIDENT, AMERICAN EXPRESS CO., ON BEHALF OF THE U.S. COUNCIL FOR INTERNATIONAL BUSINESS

Mr. FREEMAN. I am Harry Freeman, with a moderately sized company and a moderately sized statement. I am here to testify on behalf of the U.S. Council for International Business, which is the U.S. affiliate of the International Chamber of Commerce.

I would like to say in the strongest possible terms that we endorse H.R. 5383 and would like for you to move to markup, to full committee, and passage. We do have some technical comments on sections 7 and 8, which I will make for the record later in my remarks.

In the interest of time, and in making the strongest possible point, I would like to say that I agree fully with Mr. Neubauer and Mr. Shelp, who testified earlier with Mr. Finnerty.

Mr. Chairman, you and I have been talking about the service sector for a number of years. I don't know who started first—I will gladly yield that distinction to you—but we are now very much at a watershed.

A number of us testified last week before the Senate; and as you know, they passed S. 1233, the Service Industries Act.

They are moving over there and I see movement here. I was delighted to see Congressman Florio and Congressman Stark here, actively supporting this issue.

I think now we are at a watershed point where we are looking forward to the GATT ministerial meeting in November, where the service sector has come to attention. Even the media now picked this up in very, very strong terms. My statement includes the aforementioned New York Times article.

I think the momentum is there, now is the time to act. We are calling on you as chairman and members of your committee and the Congress and the House to move now.

As you said in comments a few minutes ago, it is rough to get on the agenda, and we are fully understanding and sympathetic with that. There is a lot to do between now and adjournment. Trade sometimes does take a back seat. Given the economic environment in the world and in the United States and the level of unemployment, the time could not be more ripe for moving this type of legislation.

I have listened to my colleagues from AFL-CIO. I think the answer to what Dr. Oswald has said really is: We share a lot of those concerns about negotiations, that we do not really know exactly how they are going to come out and we do not want to trade off one sector against another sector. But I think we really have to move forward now.

I have confidence that in the Trade Representative's office, now with Bill Brock and formerly with Bob Strauss, will take into account not only the interests of labor, of employees, of business interests, but the real national interest in maintaining and developing the service sector. I think we ought to move ahead and take some risks.

So that is really my statement. The momentum is there now. We are now toward the end of May 1982, shaping up in the second year of the session. I think there is time.

We in the private sector really do have our act together in the service sector. We are anxious to help, we are anxious to work with you and your colleagues to move this bill through to become law.

Thank you very much.

[The following statement was subsequently submitted:]

I would like to stress that the U.S. Council for International Business supports the purpose and general content of H.R. 5383. However, the Council has reservations about some sections.

Specifically, I refer to Section 8 which might encourage independent retaliatory action by U.S. agencies; and Section 6 which would apply subsidy and countervailing/dumping remedies to services. Some members of the Council believe that this latter section would be impractical for application to the service industry.

Chairman GIBBONS. Thank you very much for your fine statement.

[The prepared statement follows:]

STATEMENT OF HARRY L. FREEMAN, SENIOR VICE PRESIDENT, AMERICAN EXPRESS CO., ON BEHALF OF THE U.S. COUNCIL FOR INTERNATIONAL BUSINESS

Mr. Chairman and distinguished members. My name is Harry L. Freeman, Senior Vice-President of American Express Company. I am pleased to be here today to testify on behalf of the U.S. Council for International Business. The U.S. Council represents 250 U.S. companies, serving as the U.S. affiliate of the International Chamber of Commerce, the International Organization of Employers and the Business and Industry Advisory Committee to the OECD.

We endorse the principles of H.R. 5383 and commend Congressmen Gibbons and Vander Jagt for taking the initiative in recognizing the need for services legislation. The U.S. Council believes that we must broaden our trade prospective and policies to include trade in services as well as trade in goods. These hearings today demonstrate that this is beginning to happen. We are very pleased to see that the Senate passed the Service Industries Development Act S. 1233. It is vital that the House expedite passage of comparable legislation. Service industries do not want preference or protection—only parity. Mr. Chairman, H.R. 5383 is a key step in this direction.

In the not so distant past, it was a major event to spot a news item containing a reference to so-called "invisible trade in invisible goods." Now I am happy to report hardly a day goes by without the appearance of an article or speech pertaining to the service sector. Only last week, the lead article in the New York Times Business Section read, "Services: Bucking the Slump." The service sector is finally beginning to receive the recognition it deserves and requires. Services play a vital role in both the domestic economy and international trade. This is no longer an issue. A few facts will be sufficient to demonstrate my point. Attached to the testimony are various charts which depict these figures.

At the outset we would like to note that in some ways the term "service sector" is a misnomer and does not do justice to the wide diversity of industries that are included in the area. Service companies range from transportation to financial services to communications, to name a few. It is important to keep this in mind in order to recognize the magnitude of the area we are discussing today and its importance to the U.S. economy.

Services represent 67 percent of U.S. economic output—51 percent if government activities are excluded.

Approximately 66 million people—72 percent of total employment of 92 million—are employed by the service sector.

Services are growing twice as fast as the manufacturing sector.

There was a 20 percent increase in labor and capital productivity from 1967 to 1979, versus 10 percent in manufacturing.

On the international side the facts are just as impressive.

The United States now has a comparative advantage in international trade in services.

U.S. businesses account for 20 percent of total world trade in services. Last year this contributed to the first overall surplus in the U.S. balance of payments since 1976.

World trade in services expanded at 17 percent average annual rate in the past decade, compared with an average growth of 6 percent for world trade as a whole.

Why services legislation now?

There are some who would argue that services are doing so well on their own, they do not require government attention in the form of legislation or additional resources. But the truth is, we often behave as if the service sector doesn't exist; we look at our economy with only one eye—the industrial eye—when we should be using two. We need to open the services eye, so that we can see our economy in its entirety. I am not advocating that we should ignore or withdraw resources from manufacturing, agriculture or mining. What I am saying is that we should give services their due recognition and support service sector interests by giving services parity with goods in U.S. trade law.

Passage of the key elements of the Trade in Services Act legislation is essential now for a variety of reasons. The current state of the trade environment is grim, to say the least. Deteriorating trade relations and growing trade dificits have created tensions between our allies and trading partners. Strains on domestic economies have resulted in increasing protectionism as countries turn to tariff and non-tariff barriers as a means of protecting domestic industry and fostering national interests.

Headlines frequently relate the problems of the steel and auto sectors as they encounter problems in maintaining market share and combating foreign competition. In contrast, little attention is given to the growing proliferation of non-tariff barriers that affect the service sector. These barriers appear in the form of more subtle mechanisms: personnel restrictions, discriminatory licensing procedures, discriminatory taxation, discriminatory foreign exchange restrictions, tariff and customs procedures, and denial of entry into foreign markets. For example:

The Canadian Income Tax Act denies the deduction on any expenses of an advertisement carried by U.S. stations broadcasting into Canada. A section 301 case of the Trade Act of 1974 has been filed. However we must strengthen existing trade laws to provide adequate remedies for this type of situation without seeking other kinds of legislation.

In Australia, there has been a ban on the establishment of new branches or subsidiaries of foreign banks since 1942. In many countries including Brazil, Canada, Egypt, El Salvador, Finland and Greece, foreign equity participation in indigenous banks is severely limited.

Other potentially threatening and disruptive barriers are restrictions on the flow of information across national borders. Germany, for example prohibits companies from transmitting data out of Germany unless the company carries out some data processing within the country.

This is just a small sampling of the numerous non-tariff trade barriers that inhibit service sector trade.

The time to act is now—to maintain the growth of services which are the bright spots on the U.S. economic horizon. We must also recognize the vital linkage of trade in services with trade in goods. Through dramatic increases in technological capabilities, more and more international transactions in goods and merchandise depend on the capabilities of the service sector.

As Bill Brock, United States Trade Representative, recently stated ". . .two-thirds of the American people work not in the production of goods, but in engineering, insurance, data transmission, communications, shipping, banking—all of those fields that are covered by no effective international rules at all. So it is insane to think that you can long continue trade in goods if you have total barriers to the services which facilitate the trade in these goods. The two are totally intertwined, and you can't separate them. And that's why the United States has put a top priority on establishing an international regime over the next 5 years in the services and investment sectors."

Despite the important role that services play, services do not have parity with goods in U.S. trade law. In order to combat the growth of non-tariff barriers, it is essential to give U.S. trade authorities adequate capabilities for negotiating on the part of service sector companies. Although current U.S. trade law makes some reference to services, a few relatively small but significant changes are necessary to clarify the U.S. mandate to address service sector problems in both bilateral and multilateral discussions.

On the international side, services have not yet been given attention by the GATT. With the upcoming GATT Ministerial in November, it is crucial for the United States to send a positive signal to its trading allies demonstrating our commitment to the pursuit of an open trade environment for services as well as goods. The Tokyo Round of multilateral trade negotiations concentrated on goods, leaving services to be dealt with at a later date. Negotiators also lacked sufficient data on service sector problems to commit themselves to any agreements in this area. The November GATT Ministerial offers the United States an opportunity to focus high-level international attention on barriers to trade in services, including restrictions on international information flows. The first step is to ensure that U.S. trade officials have the adequate authority and mandate to pursue this type of discussion.

We must act now to prevent the services situation from deteriorating to a point at which solutions are less palatable. If we work together with the U.S. Government and with our international partners we can hope to contain the proliferation of non-tariff trade barriers before they dramatically injure trade in services or goods.

The proposed legislation is essential for giving services parity with goods in U.S. trade law. H.R. 5383 has several key components:

The bill amends the negotiating objectives of the Trade Act of 1974 to include the discussion and negotiation of services as principal goals in both bilateral and multilateral discussions and negotiations.

The bill would consolidate the coordination of services trade policy in the U.S. Trade Representative's Office and would grant Commerce a broad mandate to improve its services data base.

The bill amends section 301 of the Trade Act of 1974 to cover service sector problems more completely and explicitly, removing any possible ambiguity that Section 301 remedies do in fact cover services.

There is one provision regarding the role of independent agencies, section 8, that causes us some concern. Since it is not clear how agencies would interpret the language "taking into account" U.S. market access in other countries, we feel that this authority would best remain under the jurisdiction of the U.S. Trade Representative's Office as described in section 5. We hope the Subcommittee will amend or delete this section without impeding the rapid passage of this legislation.

Thank you for the opportunity to address this important issue. I would be happy to answer any questions you may have.

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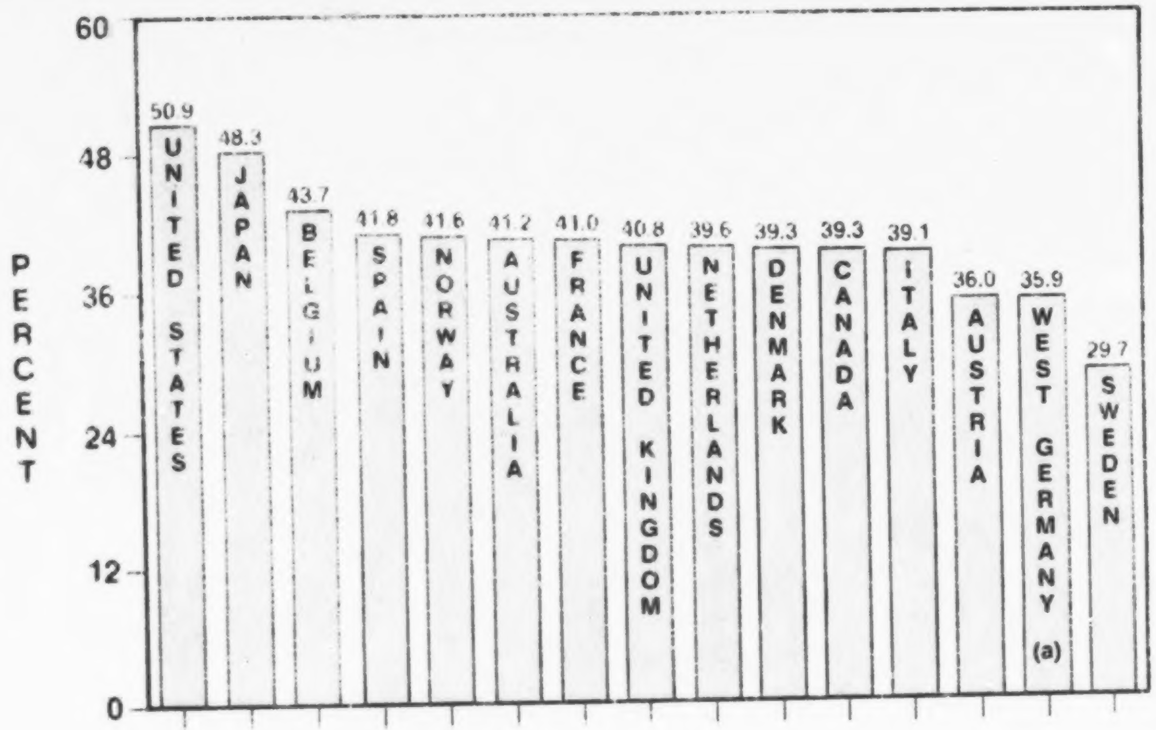
SERVICE SECTOR PROPORTION OF GROSS DOMESTIC PRODUCT* - 1978



* Excluding Government Services
(a) Data Not Directly Comparable

Source: Committee on Invisible Exports (London)

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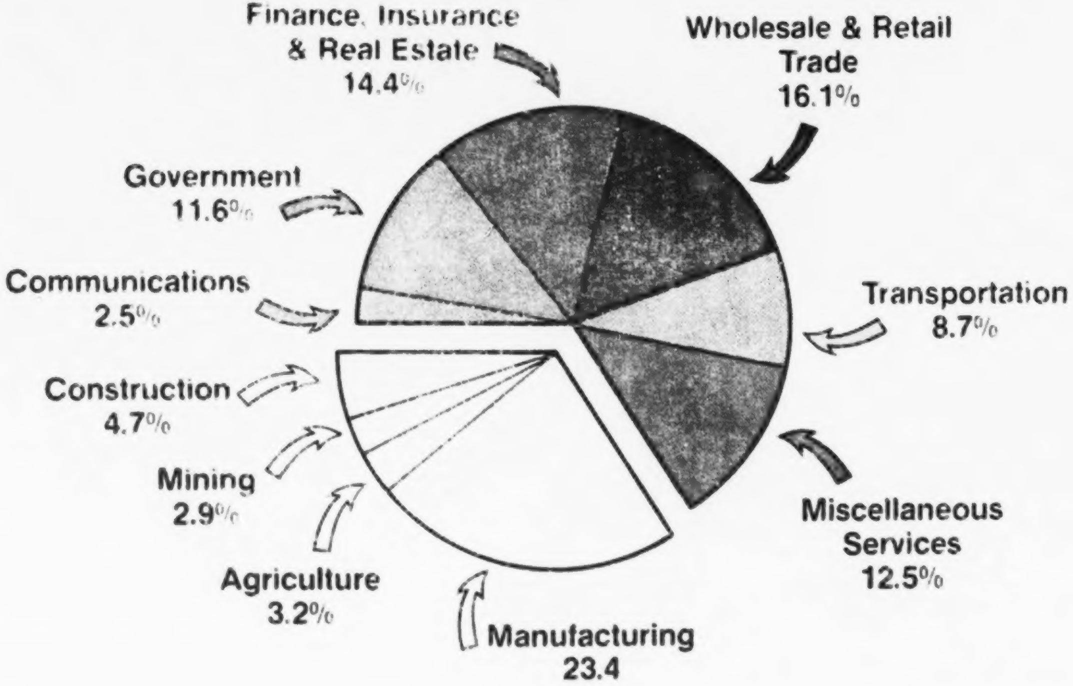
COMPOSITION OF GROSS NATIONAL PRODUCT
1979



Shaded Areas=Services

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis

Business Day
TUESDAY, MAY 18, 1982
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Services: Bucking the Slump

Employment In This Sector Has Gone Up

By KAREN W. ARENSON

It is easy to count cars and trucks rolling off assembly lines and ingots of steel being poured. So as production of manufactured goods has slumped, the depth of the recession has seemed alarmingly clear.

But the very visible plunge in manufacturing somewhat overstates the distress of the economy. For most of the widely followed economic indicators ignore the myriad of services — from medical care to banking to advertising — that account for about two-thirds of America's economic activity.

Although these less visible products of American labor are more difficult to measure than manufactured goods, they have played a major role in cushioning this recession's impact, as they have in so many other business cycles.

'A Stabilizing Factor'

"The service sector is very much a stabilizing factor for the economy," said Irving F. Leveson, director of economic studies at the Hudson Institute. "Service industries tend to have much less fluctuation in employment than goods-producing industries. And to a lesser extent, they also have less fluctuation in wages and production."

Of course, not all service businesses are recession-resistant. Some, such as the airlines, have clearly been hit hard in recent months. But while employment in the manufacturing sector tumbled by 1.3 million jobs between July 1981 and April 1982, employment in the se'vice-producing sector rose by 217,00' 'obs.

"Not every service industry is going up, and not every manufacturing industry is going down," said Samuel M. Ehrenhalt, the regional commissioner of labor statistics in New York for the United States Department of Labor. "But even though this is one of the more severe recessions in the postwar period, and even though this recession is well past middle age, we still are having job gains in white-collar jobs, and in services in general."

Service-producing companies have also been important in foreign trade. Although sometimes dismissed as "invisible trade," sales of services abroad have helped keep America's balance of trade positive.

"Banking and other service sector contributors enabled the United States to turn last year's $28 billion merchandise trade deficit into a $7 billion current accounts surplus," said Walter B. Wriston, chairman of Citicorp.

There is no simple way to define services. They encompass a wide range of activities, including transportation, public utilities, wholesale and retail trade, finance, health, education, business services and entertainment. Even Government is thrust under the service heading. Despite the many differences among these activities, however, economists find it useful to look at them as a group, as distinct from the four goods-producing sectors of the economy:

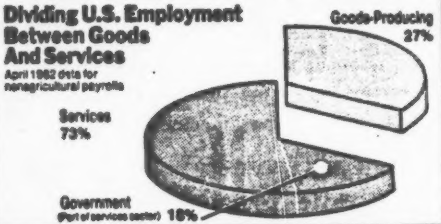
Continued on Page D6

The Recession-Resistant Services Sector

	Peak Prerecession Employment (July '81 in 000's)	Current Employment (April '82 in 000's)	Change (in 000's)	Percent Change
Transportation and Utilities	5,167	5,100	− 67	−1.3%
Wholesale Trade	5,360	5,301	− 59	−1.1%
Retail Trade	15,436	15,552	+ 116	+0.8%
Financial, Insur., Real Estate	5,344	5,371	+ 27	+0.5%
Other Services*	18,642	18,952	+ 310	+1.7%
Private Sector Services	**49,949**	**50,276**	**+ 327**	**+0.7%**
Government	15,992	15,882	− 110	−0.7%
Services Total	**65,941**	**66,158**	**+ 217**	**+0.3%**
Mining	1,132	1,151	+ 19	+1.7%
Construction	4,272	4,026	− 246	−5.7%
Manufacturing	20,535	19,258	−1,277	−6.2%
Goods-Producing Total	**25,939**	**24,435**	**−1,277**	**−5.8%**

* Includes employment in the following industries: health, education, legal, data processing, advertising, credit and collections, lodging and hotels, personnel placement, and amusement.

Source: Bureau of Labor Statistics



Dividing U.S. Employment Between Goods And Services

April 1982 data for nonagricultural payrolls

The New York Times / May 18, 1982

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TUESDAY, MAY 18, 1982

Services: Bucking the Slump

Continued From First Business Page

manufacturing, mining, construction and agriculture.

Surprisingly, the service sector has accounted for more than half of all jobs in the United States since at least the 1920's. But while the percentage of manufacturing employment, composed heavily of blue-collar jobs, has shrunk steadily during this century, the percentage of employment in the services, made up largely of white-collar jobs, has grown steadily. Today, the service sector accounts for about 72 percent of the nation's total employment and 67 percent of its economic output.

Perhaps the most important reason for the huge growth in services is that productivity gains in manufacturing and in agriculture have enabled fewer people to produce more goods, thus freeing many to move into service jobs. And America's growing affluence has allowed consumers to purchase the food, clothing and other goods they need and have an increasing amount of money left for services.

The movement of women into the labor force has also increased the appetite for services. Not only has it meant extra income to be spent on restaurant meals, cleaning services, and even child care, but it has also made these services more important.

Businesses Turn to Services

A similar appetite for services has developed in the business sector. Many companies, for example, are shifting to outside concerns for automobile fleets, legal work or payroll computation. (Under a statistical quirk, a lawyer — or any other employee — working for a manufacturer is counted as being in a manufacturing job, while the same person working in the same job for a law firm or another service concern is considered a service sector worker.)

While some of the recessionary strength in services undoubtedly comes from its long-term growth, there are services that appear to fare well during downturns. When people postpone purchases of automobiles, appliances and other goods, they do not necessarily cut back equally on purchases of services.

This difference in consumer purchasing patterns has been reflected in spending over the past year. Purchases of services rose by 12 percent between the first quarter of 1981 and the first quarter of 1982, while purchases of consumer durables fell slightly and purchases of nondurables were up by only 6 percent.

"Goods are storable, so during a recession, people keep using the ones they have," explained Victor R. Fuchs, a professor of economics at Stanford University, who is widely known for his research on the service economy. "People don't stop using refrigerators, they just don't go out and buy new ones." In contrast, he noted, services cannot be stored. If they are needed, people must continue to purchase them in a downturn.

Different Approach to Layoffs

There are, of course, services that are more luxuries than necessities, such as restaurant meals or travel, that may be reduced in periods of financial strain. Unlike manufacturing companies, however, which accumulate inventories and then lay off workers until stocks are worked down, the service sector cannot do business if it lays off all its workers since it cannot inventory its product.

So while employment in some services may edge down a bit, there generally are not the mass layoffs found in manufacturing. If a hotel or a restaurant wants to stay in business, its staff must be there every day.

Mr. Leveson of the Hudson Institute added that many service employers feel less pressure to dismiss people since their salaries often do not represent fixed costs, but are paid in tips or commissions.

That is not to say that service businesses are entirely protected from downturns. As Edward Guay, chief economist at the Cigna Corporation, said in an interview, "A service business can overexpand and misallocate capital, just as in manufacturing."

One service sector that has not held up well during this recession is government. Between July 1981 and April 1982, Federal employment fell by 60,000 jobs, to 2.7 million, while state and local government employment declined by 30,000 jobs, to 13.2 million.

Despite the seeming vitality in the overall service sector, industry executives caution that its growth could be hampered by trade barriers imposed by other countries. American companies in the service sector earned about $60 billion in foreign revenues in 1980, according to an estimate by Economic Consulting Services Inc.

"The foreign markets have become very important for certain service businesses," said Ronald K. Shelp, vice president for international relations for the American International Group Inc. Among these, he said, are telecommunications, data processing, advertising, insurance and hospital services.

But while American companies now account for about 20 percent of total world trade in services, their market share has been shrinking. And service sector executives are asking the Government to pay more attention to policies affecting their industries.

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STATEMENT OF RAYMOND J. HODGE, CHAIRMAN, INTERNATIONAL ENGINEERING AND CONSTRUCTION INDUSTRIES COUNCIL

Mr. HODGE. My name is Raymond J. Hodge, and I am a senior partner in the consulting engineering firm of Tippetts-Abbett-McCarthy-Stratton.

I am testifying here today on behalf of the International Engineering and Construction Industries Council [IECIC] in my current capacity as chairman. The IECIC is composed of the American Consulting Engineers Council, the Associated General Contractors of America, the National Constructors Association, and the American Institute of Architects.

Together these organizations represented over 5 billion dollars' worth of design and construction work last year and significantly contributed to the positive components in the U.S. balance of trade. This is a minimum estimate and it could be substantially higher.

IECIC welcomes this opportunity to voice its support for the general thrust of H.R. 5383, the Trade In Services Act of 1982.

The theme of IECIC's VI Action Conference held last October was "A New Commitment: Rebuilding American Exports." The findings of this conference are outlined in the proceedings of this conference.

I would like to submit a copy of the IECIC Conference proceedings for the record.

Chairman GIBBONS. Without objection, they will be included.

Mr. HODGE. Thank you.

We have seen since that date increased attention to services exports by the administration and in the Congress with the introduction of legislation such as S. 2058 in the Senate, H.R. 5383 in the House, and the recent unanimous Senate passage of S. 1233, the Services Industries Development Act.

U.S. Trade Representative William Brock and Department of Commerce Secretary Malcolm Baldrige participated in our conference and both acknowledge the important contribution our industries make to U.S. trade as engineering and construction overseas contracts are often the lead-in for exports of related U.S. goods and services.

Many of the major problems raised at the IECIC Conference are addressed in H.R. 5383, IECIC members are looking for further legislative and executive action in the areas of competitive export financing, effective export promotion policies, reduction of international protectionist practices, and modification of some existing legislation such as the Foreign Corrupt Practices Act, antitrust regulations and antiboycott laws.

IECIC applauds the stated purpose of the Trade In Services Act of 1982. Integration of service sector trade issues in U.S. economic and trade policy is long overdue. This becomes readily apparent when one analyzes the positive and negative components of the U.S. balance of trade. Section 4 of this bill will place the negotiation of reductions in barriers to trade in services in its proper priority among the top of U.S. trade issues. Moreover, section 7 provides the needed clarification of the term "services" under the definition of "unfair trading practices" in section 301 of the Trade Act of 1974.

We have great confidence in placing the responsibility of coordination and implementation of U.S. trade in services policies with the U.S. Trade Representative and the Trade Policy Committee as suggested in H.R. 5383. As Ambassador Brock stated in his testimony before the Senate, he has spent an extraordinarily large amount of his time on the question of negotiating international barriers to trade in services through the GATT and he should be commended for these efforts.

The design/engineering/construction industry began working with the U.S. Trade Representative's Office in 1980 to identify obstacles and problems encountered by engineers, contractors, and consultants in working overseas. This information was then provided by the U.S. Government to the OECD for a pilot study on this sector. We viewed this effect as an important first step in determining the barriers encountered by our industry. IECIC will continue giving the ambassador and his staff the support they need.

In regard to the creation of a service industries development program in the Department of Commerce, section 5, IECIC believes the proposed functions of such a program can effectively be carried out, giving these issues the coordination they have often lacked in the past. We are particularly interested in giving the Department the necessary support to develop a reliable and useful data base for services.

We are pleased that section 5(c)5(v) provides for an analysis of the adequacy of U.S. financing and export promotion programs. We believe there should be greater rcognition of the need to promote service industries as part of U.S. trade policy and the need to allocate existing resources to service industries as well as goods.

For example, in 1980, the Export-Import Bank of the United States provided only $93 million in direct credits to support service contracts, which represents less than 2 percent of total direct credits authorized. Given the important role that services play in export trade, we believe that greater emphasis should be given to financing of service exports.

We also approve of the parts of section 5 which recognize the need to analyze U.S. Goverment disincentives to services. We believe that this is extremely important. The U.S. Government imposes significant barriers to American engineering/construction industries, such as the Foreign Corrupt Practices Act, conflicting antiboycott laws and antitrust policies. We strongly support these efforts and encourage congressional action to remove these disincentives.

IECIC supports passage of H.R. 5383. However, there are two major reservations. We recommend the deletion of sections 6(A) and section 8 of this bill in order to fully separate the issue of reciprocity. We support the efforts of this subcommittee and the purposes and proposed actions found in H.R. 5383, with the exceptions noted above.

We agree with Ambassador Brock that it would be helpful for Congress to pass this legislation before the GATT ministerial meeting in November.

Productive bilateral and multilateral negotiations will increase our competitiveness and we believe legislation such as H.R. 5383 strengthens the U.S. position in such endeavors.

Thank you very much, Mr. Chairman, for giving me this opportunity to present our comments.

[The IECIC conference proceedings previously referred to follow:]

Proceedings
IECIC VI Action Conference

IECIC CHAIRMAN

Raymond J. Hodge
Partner
Tippetts-Abbett-McCarthy-
Stratton

IECIC DELEGATES

American Consulting Engineers Council

Raymond J. Hodge
Tippetts-Abbett-McCarthy-Stratton

Homer B. Pettit
Modjeski & Masters

Associated General Contractors of America

George H. Andrews
Morrison-Knudsen Company, Inc.

Richard T. Howard
Paul N. Howard Company

The American Institute of Architects

Richard Roth, Jr.
Emery Roth & Sons

National Constructors Association

Herbert T. Gouldon
The Lummus Company

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Secretary
Sandy Pearson, ACEC

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Susan W. Hamlin, AGC

William W. Beddow, NCA

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Proceedings of the IECIC VI Action Conference

IECIC Chairman Raymond J. Hodge

With the advent of the Reagan Administration, 1981 seemed to be an especially propitious year in which to hold the bi-ennial conference of the International Engineering and Construction Industries Council. This was proven true by the outstanding success of the Conference, held in Washington, D.C., on 14-15 October 1981 at the Shoreham Hotel. The Conference attracted engineering and construction executives, as well as other participants from the private sector, and numerous high-ranking government officials and observers.

As set forth by the Chairman of the Conference, Raymond J. Hodge, in his opening remarks: "The Conference goal is to continue the process, begun by this Administration, to restore the U.S. to a position of pre-eminence in International trade." Mr. Hodge further delineated this goal, saying, "We will define impediments to U.S. export, and, more significantly, identify strategies for overcoming barriers to increase the U.S. share in export marketing, and assess the roles the legislative and executive branches of government play in this effort, and the role we in the private sector must play in recapturing our share of the international market."

The Chairman underscored the role of the engineering and construction industries in world trade: "The engineering-construction industries has the potential to be the catalyst for increased export trade. As the designers, planners, and constructors for multi-billion dollar projects we can provide foreign markets for U.S. manufactured materials, installed machinery, and construction equipment, and a continuing market for spare parts. Our contribution, therefore, can go beyond the primary impact of initial contracts for professional services."

Mr. Hodge pointed to the recent precipitous decline of the engineering and construction industries of the United States in the world market and noted, as well, the importance of these industries to helping to achieve the Administration's goal of economic recovery for the United States. Emphasizing the underlying philosophy of the two-day session, the Chairman said, "We believe that progress toward restoring U.S. position in world trade and extending U.S. presence abroad will be achieved by cooperative efforts between the private sector and the government."

Mr. Hodge noted a number of specific U.S. government policies and regulations which have contributed to the decline of the overseas work of the industry in the past. These include taxation of personal income earned abroad; taxation of housing allowances for employees working in foreign countries; failure to provide loans and grants to U.S. firms for feasibility studies; failure to tie loans to U.S. contractors, architects, and engineers; application of domestic anti-trust acts to services and contracts in foreign markets; failure to provide bonuses and tax credits for foreign projects; lack of credits for value-added tax on exported materials, equipment, and services; uncertain enforcement of the corrupt practices act; and, in some cases, the requirement for environmental impact statements for some foreign projects. Emphasizing that the U.S. government is not only to blame, he said that the engineering-construction industry had itself also contributed to the decline of export trade, through failure to communicate effectively our position and the impact which it has on the domestic economy. He noted that the industry had also failed to supply U.S. government officials with data and information required to assist successfully U.S. contractors

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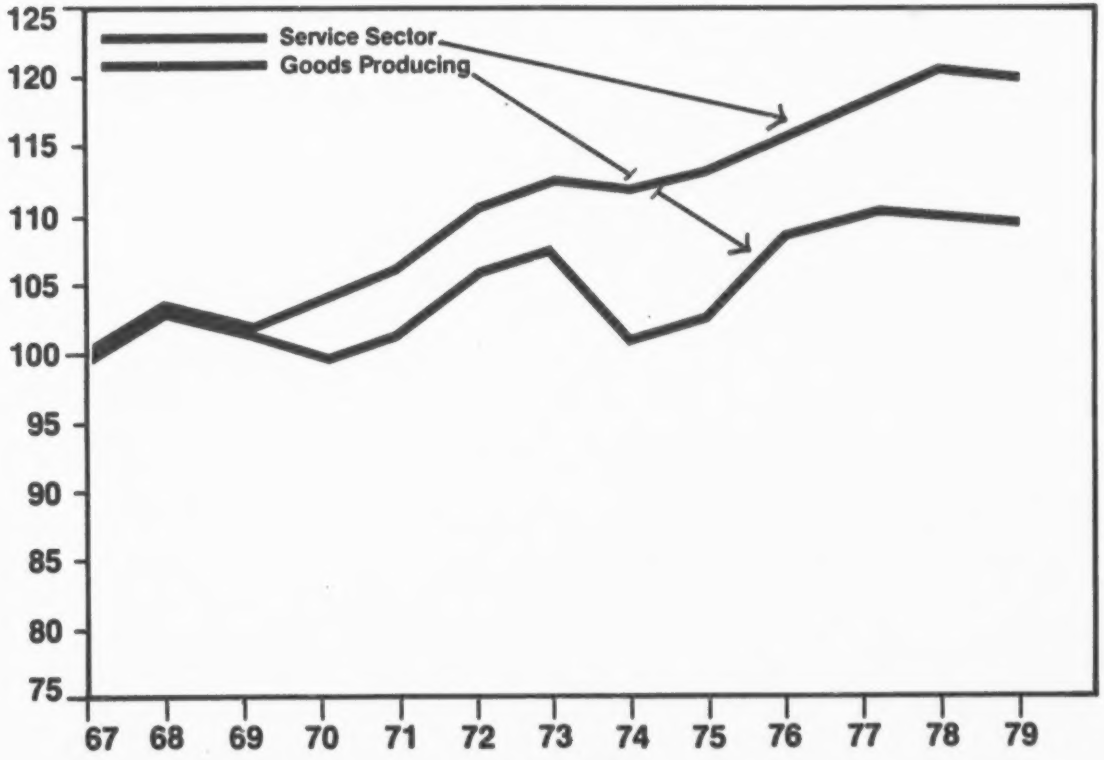
SERVICE AND GOODS PRODUCING INDUSTRIES
TOTAL FACTOR PRODUCTIVITY
(1967=100)



Source: U.S. Dept of Labor, Bureau of Labor Statistics

ESTIMATED FOREIGN REVENUES OF THE U.S. SERVICES SECTOR, 1980

SERVICE INDUSTRY	FOREIGN REVENUES (billions dollars)
Accounting	2.35
Advertising	2.05
Banking	9.10
Business/Professional Technical Services	1.07
Construction and Engineering	5.36
Education	1.27
Employment	0.55
Franchising	1.26
Health	0.27
Information	0.60
Insurance	6.00
Leasing	2.35
Lodging	4.60
Motion Pictures	1.14
Tourism	4.15
Transportation	13.93
Subtotal, 16 service industries	56.05
Miscellaneous financial services, communications, etc.	4.00 (est.)
TOTAL OF U.S. SERVICES SECTOR	$60 billion

SOURCE: THE ECONOMIC CONSULTING SERVICES, INC.

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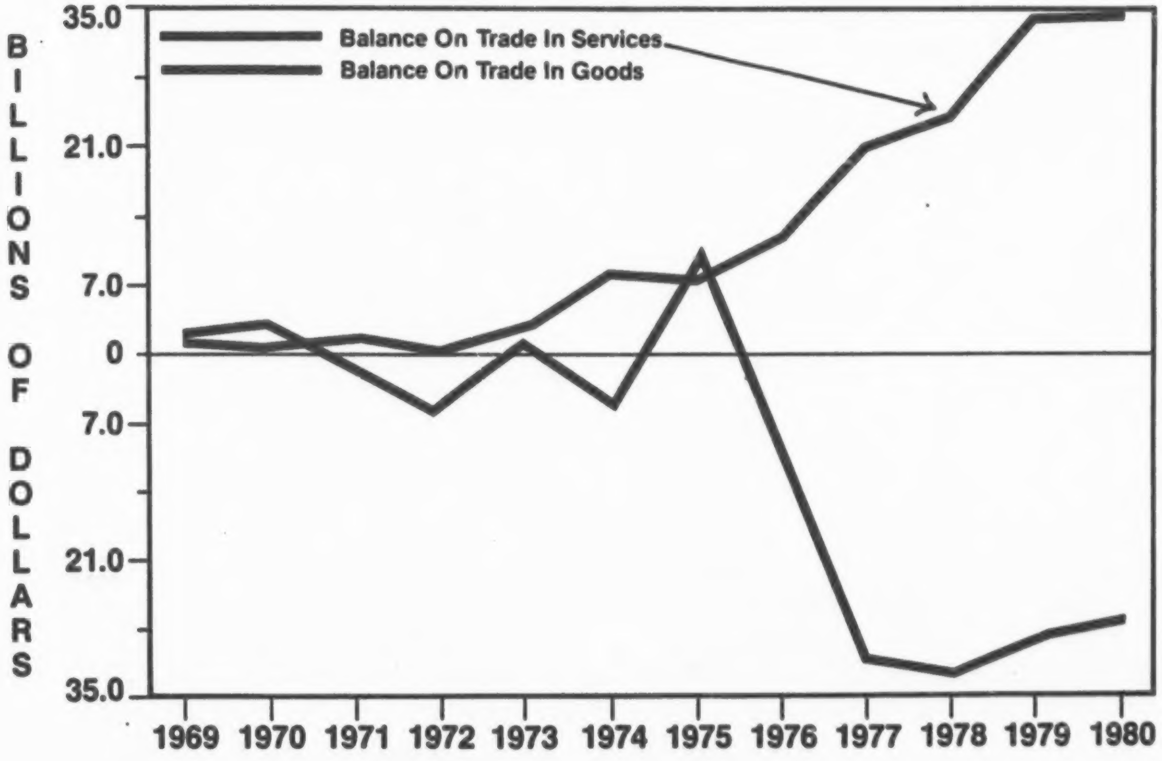
U.S. BALANCE OF PAYMENTS TRADE IN GOODS & SERVICES



Source: U.S. Dept of Commerce, Bureau of Economic Analysis and engineers operating in the overseas market. "What we can and must create through this dialogue is a realistic assessment of the problems and strategies or their solutions," said the Chairman.

He commended the new Administration for the bold and deliberate step already under way toward removing the barriers to export trade. Underscoring the recent passage of the economic recovery tax act of 1981, the Chairman termed it a "highly significant milestone" in the direction of assisting the U.S. industry to compete successfully internationally. He added that as the U.S. government and private industry continued its mutual efforts to enhance the export trade, "we must keep in mind the relationship between export trade and domestic economic well-being. Too often, the two are treated as though they were distant cousins, if indeed related at all." He pointed out that a strategy whereby the United States obtains "engineering-construction dollars" from those countries that are getting our "petro dollars" would greatly assist our domestic economic picture. The unique character of the engineering and construction industries in obtaining multi-million dollar export projects must be thought of in terms of national as well as corporate advantages. On the role of this industry, the Chairman pointed out that it has a singular opportunity to assist in expanding the total U.S. export picture as direct contractors, as suppliers of U.S. services and goods for foreign markets, and as sources of referral for additional U.S. products for foreign markets. He promised the full cooperation to government of the engineering and construction industry and commended the new Administration for "dedication to economic recovery and increased export trade."

Keynote Speaker Ambassador William E. Brock

The Administration's Commitment Statement on U.S. Trade Policy

The Honorable William E. Brock
U.S. Trade Representative

In introducing the United States Trade Representative as the keynote speaker for the Conference, the Chairman noted that Ambassador William Brock enjoyed the active support of President Reagan. He said that the Ambassador has "assumed the most aggressive posture in support of the increased export trade of any government official in recent history. He has not only brought to this position a keen understanding of the importance of increased export trade to the domestic economy, but has successfully conveyed this critical concept to the legislatures, the business community, and the public at large."

Ambassador Brock emphasized the unawareness of the American public on how interwoven the United States actually is in the world economy and how interdependent it is on world trade. Pointing out the historical fact that this nation had been blessed with the world's largest common market for the past two-hundred years, he said, "Consequently, we didn't pay a whole lot of attention to international economic opportunities." In terms of the gross national product, exports ten years ago amounted to 6½ per cent of the GNP, and have almost doubled today. "We're talking 250 billion dollars, and I'm not sure if people realize just what that means in terms of the ability to have a healthy U.S. economy at home," said Ambassador Brock.

Ambassador Brock noted the number of disincentives imposed by policies and rules of the U.S. government upon U.S. industries operating abroad, such as taxation of earnings of U.S. citizens overseas and the high-interest rates required of the U.S. Export-Import Bank. He stressed the necessity of enforcing existing U.S. laws, while ensuring that the industry is not disadvantaged by unfair competition in terms of foreign subsidies and trade barriers. He said that the General Agreement on Tariff and Taxation has been specifically devoted to goods in the past, while it is now necessary in international codes for the international community to think also in terms of services.

In the question and answer period following Ambassador Brock's talk, he said that in our domestic economy, "Exports should be the front edge of the recovery effort, not the trailing end." He noted the importance of such an institution as the Export-Import Bank in assisting U.S. trade efforts overseas, as well as the Export Trading Company concept, passed unanimously by the Senate but stalled in the House of Representatives. Ambassador Brock also pointed out the overall importance in the scheme of international financing of the international financial institutions such as the World Bank.

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The New Commitment: Government Programs and Policies in Action

Moderator: **Nello L. Teer, Jr.**
Nello L. Teer Company

Panelists: **Elise R. du Pont**, Agency for International Development
Donald Earnshaw, Department of Commerce
Harry W. Kopp, Department of State
Harry Fliakas, Department of Defense

In his opening remarks, Mr. Teer noted that although a little progress had been obtained by the engineering and construction industry over the past 14 years of IECIC Conferences, "The Reagan Administration now has the opportunity to demonstrate it's willingness to address our needs." Noting the long absence of any meaningful construction export policy of the government, Mr. Teer said that the U.S. government officials represented on his panel presented a golden opportunity as people to whom industry should identify it's needs and problems.

The Assistant Administrator of AID, Mrs. du Pont, said that she was bringing a new bureau for Private Enterprise in the Agency into existence to shift the emphasis of U.S. foreign assistance program from that of resource transfer to technology transfer in institution building. It was hoped by the present Administration that the new Bureau would become a catalyst for that transfer. The goal of this Bureau is to "transfer know-how, capital, and management skills of American private enterprise in order to build stronger private sectors in the developing world." Pointing to the recent history since World War II of areas such as Singapore, Taiwan, and South Korea, which achieved remarkable progress in a very short period of time, she termed the common denominator of this program on what the President has termed "the magic of the marketplace."

Noting the decrease in development assistance budgets of the major nations of the world, including the U.S., Mrs. du Pont said that one of the goals of the new Agency is to leverage foreign assistance dollars in order to create a multiplier effect by support of private enterprise projects abroad. Emphasizing the fact that the Reagan Administration is endeavoring to bring a totally new thrust of involvement in the energies, talents, and productive genius of American private enterprise into areas formally dominated by the government, Mrs. du Pont said the new operation is a logical extension of that effort. A fourth objective of the bureau is that of rebuilding exports so that U.S. industries may be able to compete aggressively in the export markets.

To accomplish this thrust Mrs. du Pont said that AID was commencing with a six country target group singled out for special attention. These countries include: Indonesia, Sri Lanka, Jamaica, Costa Rica, Kenya, and the Ivory Coast. Each will be the subject of an AID survey mission to determine what might be U.S. private enterprise interests in the development of these nations. Working with the office of the U.S. Trade Representative, the Commerce Department, and the Department of State, the primary efforts will be on leveraging resources and trying to stimulate private investment in the lesser developed nations. One of the mechanisms to be used is a thrust towards mixed financing or co-financing, although in the past this has not been U.S. government practice. The role of the Trade and Development Program was mentioned briefly by Mrs. du Pont as one which would be explored further in the afternoon's panel session.

The Deputy Assistant Secretary of Commerce for Trade and Development, Donald Earnshaw, described his present position as an export marketing activity in the U.S. government. He stated the conviction of the government that engineering and construction were in the forefront of the U.S. export picture and noted further that "the success which you achieve in those contracts has a tremendous bearing on the export activity of those that come behind and take advantage of what you have built out there."

Mr. Earnshaw described the business orientation of the new Administration and the fact that finally government officials were using the influence of their position to achieve the award of business to American firms. The importance of the new Foreign Commercial Service in this scheme was pointed out by Mr. Earnshaw, as well as the need to attract business grounded individuals into the Service.

The importance of overseas trade missions, a function of the Department of Commerce, was cited by Mr. Earnshaw. He also noted the formation of a new President's Export Council and that among the five subcommittees to be formed within the Council is one on trade and services. He said that this was another manifestation of the growing realization of the importance of the services sectors in the export picture of the United States. Terming the present budget reduction process of the U.S. government as "a real opportunity," he called this a unique chance to examine closely how the government is organized, what it's priorities are, and to make changes to obtain the correct structure and priorities to deal with responsibilities and relationships with private industries.

Mr. Harry Kopp of the Department of State spoke of the pressures that are being placed upon the world's present trading system and how the new Administration intends to respond to those pressures domestically and internationally. Noting merchandise trade deficits of about 3 billion dollars in 1980, he said that these were mirrored in the world by what continues to be a substantial surplus of almost 120 billion dollars held by the OPEC countries. Because of these pressures he felt that governments will turn increasingly protectionist in the future.

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Panel on Government Programs and Policies in Action

The need to maintain open markets and investment flows is thus more vital than ever, Mr. Kopp stated, and that Administration policies will be directed to accomplish just that. He said that internationally the U.S. government is committed to a market approach and will be aggressive in enforcing rights under the GATT and looking towards new negotiations to keep markets open. He felt that in terms of development, investment was the key and the secret of growth is to maintain a good investment climate. Precedent for such an approach exists in the most successful examples of Singapore, Taiwan, and Korea. The need for creating some form of multi-lateral insurance facility to provide protection for foreign investment and against political risk is a future goal of this Administration. He underscored the necessity for the Administration to have the advice of U.S. private enterprise which "knows far better than we in government do what is helpful in the operation of the market in the world, which can advise us on how market operations can be improved, where our negotiating strengths lie, and where it is that we should be seeking advantages."

Mr. Fliakas of the Department of Defense discussed the overseas programs of that Department. He noted that unlike the rest of the government, the programs in the Department of Defense are expanding and that presently 24% of the armed forces is now deployed overseas or afloat. There are presently 1,600 installations overseas which require military construction programs to support, with 40% of the total construction effort of the Defense Department now conducted overseas. Noting that although this overseas program was totally world-wide in effort, Mr. Fliakas cited the very great importance of efforts in the Persian Gulf. Over the next 5 to 6 years, this program alone could exceed 1½ billion dollars in construction of facilities.

The two primary construction requirements of the Department of Defense are the Corps of Engineers and the Navy Facilities Engineering Command. He pointed out that these construction and design agents contract all of their work through various field divisions and districts and until quite recently required international competition for such contracts. In November 1980 a policy called the American Preferences was established applying to the Indian Ocean area because our national interests are so closely linked to that very volatile and unstable region. He noted that delicacy of enforcing such a "Buy American" provision through legislation, but said that the Department's use of the American preference policy should in the future greatly assist American engineers and contractors. He asserted the fundamental importance of the American architectural, engineering, and construction industries to accomplishing overseas work and the fact that American industry participation is not only desired but required.

Following the presentation of the four members of the panel on Government Programs: Policies in Action, the panelists answered a number of questions from the audience. Mrs. du Pont was questioned on the specifics of how her Bureau planned to operate in relationship with industry. She responded by saying that the Bureau was new and still feeling its way towards a successful type of operation. She believed that there were a number of ways in which the Bureau would interact with the private sector, including creating an advisory council of chief executive officers from the private sector to use for a sense of direction for the Bureau. She said that the Bureau would be looking to businesses to bring investment ideas to it in an effort to leverage the activities. She held out the hope of joint financing, some of which is expected to come from the host country, both public and private sectors, as well as from the Bureau.

On the subject of the U.S. Foreign Commercial Service, it was pointed out that the U.S. private sector had historically taken quite lightly the value of such a service. Mr. Earnshaw responded that one of the major goals of the Dept. of Commerce was to enhance greatly the stature, knowledge, and helpfulness of Foreign Commercial Service officers and that a formal education program for them was being de-

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rived. He also felt strongly that American ambassadors abroad must focus more of their attention on the needs of U.S. commercial world.

In regards to the Indian Ocean Project, a question was raised with respect to the eligibility of the subcontractors to the general contractors. Mr. Fliakas answered that he was not sure about the specific case asked but that he would check into it and that it was the intention of the Dept. of Defense that such subcontracting would be limited to U.S. firms.

Again on the subject of the Foreign Commercial Service, a question was asked as to the process of assessing the qualifications of a foreign commercial service officer. Mr. Earnshaw said that this would be a joint responsibility of the Director General of the Foreign Commercial Service and the Ambassador involved. He spoke of the fairness of the present system saying, "It's a remarkable system, but it does work."

In answer to a question regarding U.S. trade policy towards the People's Republic of China, Mr. Kopp stated that the PRC is a special case. He said that the U.S. anticipates a gradual expansion of trade, but not a very rapid growth since the Chinese do not have resources currently to spend on imports and are also pursuing a most conservative borrowing policy. He noted that the United States and the People's Republic of China would be holding their first Joint Economic Commission meeting in early 1982, which would be chaired for the U.S. by Secretary of Commerce Baldrige.

Deputy Assistant Secretary of Commerce Donald Earnshaw

Secretary of Commerce Malcolm Baldrige

Lunch with the Secretary of Commerce

The luncheon address on the first day was given by the Secretary of the Department of Commerce, Malcolm Baldrige. Congratulating the audience on the fact that in 1980, U.S. contractors captured almost 45% of the $108 billion in new foreign awards worldwide, Mr. Baldrige pointed out that the increase in dollar value for U.S. firms was an amazing 120% in 1980 with total increase of 60% of new foreign awards. He stated that although U.S. firms are clearly first in the field, "This rise is accomplished in a time when U.S. regulations couldn't have made it any harder for firms such as yours to compete abroad. That makes these accomplishments border on the fantastic, in my opinion."

Mr. Baldrige emphasized the new Administration's commitment to substantial changes in the Foreign Corrupt Practices Act. Noting the ambiguities and unnecessary paper work imposed by the Act, he said that one survey showed that accounting and auditing costs were increased by approximately 30% as a result of that Act. Describing discussion of changing the Act as often involving an emotional issue, Secretary Baldrige said, "All we want is a piece of legislation that is clear in its definitions and fair in its penalties, one that doesn't keep an honest businessman

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from selling overseas because of the fear of inadvertently breaking the law."

Secretary Baldrige stated that the U.S. banking and anti-trust laws need to be revised to allow establishment of U.S export trading companies. Citing the fact that perhaps 1% of U.S. companies do 80% of U.S. exporting, he said that one of the goals of this legislation is to entice into exporting small and medium-size firms, as well as large firms who are not currently doing so. He said that such a law would be of definite advantage to engineering and construction industries in competition with major competing nations, since the anti-trust exemption provided in the Administration version of the bill (S.734, H.R.1648) would extend Webb-Pomerene Act protection to firms engaged in services. Secretary Baldrige pointed out that most other major nations in the world market use the export-trading company concept to great advantage. Although he did not feel that the legislation enactment would provide a quick fix for total U.S. export performance, he felt that it might well provide a great deal more than originally envisioned.

Secretary Baldrige next spoke about the number of actual export barriers erected by foreign governments. One of the major ones, he stated, are subsidies provided by foreign governments to national or local firms in third country markets. Noting that this type of subsidization takes many forms, including direct and indirect financial assistance from the government, tax breaks, and government risk shares, he stated it to be the future policy of the U.S. government to endeavor to diminish or eradicate such barriers wherever and whenever possible. He noted also the strong correlation between the nationality of those firms which do feasibility studies and of those which received the final contract award: "That happens because plans usually are drawn for the specifications of goods and services consultants are most familiar with. We all know that if governments subsidize their national's feasibility studies or bids on foreign projects, their firms have an unfair competitive advantage right away."

Mr. Baldrige spoke again on the subject of foreign trade barriers which restrict operation of U.S. companies abroad. Citing import licensing restrictions on our foreign currency exchange, and discriminatory application of domestic regulations, as well as a wide variation in national bidding procedures, he stated that one of the major weaknesses in the present international trading system is that, "There is still no formal multilateral mechanism to resolve trade problems in the engineering and construction services field. In fact, they are lacking for the service sectors as a whole."

He said that one of the major initiatives of the new Administration has been a concentrated effort to focus widespread attention on the treatment of services in the international trading community. "Our objective is to develop internationally agreed upon rules and discipline for trade and services. This is not going to be easy, but it's a task we've set for ourselves and we're all in agreement on that." He challenged the international community to be "bold and imaginative in taking up the services issue." He noted that any international forum, including OECD, GATT, or any other appropriate organization, should be utilized to try to solve some of the problems currently surrounding provision of services. Another factor which Secretary Baldrige pointed out is that the role of the developing countries, and the markets that they offer, are often quite substantial. This is a factor which must be taken into account in such negotiations.

The Secretary of Commerce then described programs currently available in the Commerce Dept. which are directly available to assist the engineering-construction industries. Among the ones he mentioned were the Major Projects Program, the Commerce Action Group for the Near East, and the Foreign Commercial Service. Noting that the Foreign Commercial Service was acquired by the Dept. of Commerce in 1980, Secretary Baldrige said, "We are working hard to make it an efficient and effective representative for U.S. business abroad and responsive to your needs, working for business."

Wilson V. Binger, left, Chairman Hodge, OPIC President Craig Nalen, Secretary Baldrige

He felt that a very selective process had been established to recruit talented and motivated officers to the Service. Unlike a number of other government programs, much of the recruiting is being done in the private sector since the Service is seeking people with industry experience to be brought in at senior grades. In addition, a comprehensive skills development program is being developed as part of each Foreign Commercial Service officer's career track. The Secretary also explained that upon taking office he had requested the Secretary of State to enlist the aid of U.S. Ambassadors in assisting the business community. "Al

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Haig sent a telegram to every ambassador saying that promoting trade, helping business is a part of your job, and further, politely at the end of the telegram, indicated that this effort would be part of their review given by the State Department at the end of the year, determining how they were ranked in their job." He noted that as a result of this telegram a number of ambassadors had come to see him to determine how best they could assist.

Secretary Baldrige underlined the determination of the President and this Administration to do everything possible to help the private sector. He noted that the economic recovery program of the Administration could be condensed into one word, "jobs." Stating that inflation is the number one problem, "right now we're running at 25% less this year than last year. It's one of the best kept secrets in the press that I have seen." Secretary Baldrige said that such a program is extremely difficult and one which would take time. "But there is no other way to end this battle," said the Secretary. In conclusion, Secretary Baldrige stated, "The government can go only so far. It's in your hands, gentlemen, and I know it's in good hands."

In an answer to a question on the impact of business interests on foreign policy and advisors to the President, Secretary Baldrige said that the new cabinet form of government, adopted by President Reagan, was an excellent way of insuring that major issues were thoroughly aired by all concerned branches of government before policy decisions were made. "Therefore, there hasn't been one single issue that I'm aware of, and I think I'm aware of them all, that we haven't got our licks in." In adopting such a process, Secretary Baldrige noted that final decisions were achieved only after all concerned agencies had a chance to make their views thoroughly known on the issue.

Dealing With the International Environment

Moderator: **William N. Walker, Esq.,** Mudge Rose Guthrie & Alexander
Panelists: **Dan Wilson,** Foreign Commercial Service
Nancy Adams, Office of the U.S. Trade Representative
Christian Holmes, Trade and Development Program
John D. Lange, U.S. Department of Treasury

Issues to be considered by government officials in implementing U.S. export policy in the current international arena were addressed by a panel of trade experts representing four different federal agencies. Mr. William N. Walker, former chief negotiator during the Tokyo Round of the Multilateral Trade Negotiations, remarked that U.S. business was only now coming to assess the specific trade barriers imposed by foreign governments in overseas markets. If they didn't take the time to identify those barriers, Mr. Walker said, U.S. firms would obviously be unable to address ways in which they could be overcome. As a result, U.S. firms have accepted actions by foreign governments which they would never tolerate if taken by our own government.

Panel on Dealing with the International Environment

The climate is changing, however, both internationally and domestically. "Congress and the Administration are now prepared to do more to deal with the kinds of problems that businessmen face," Mr. Walker concluded. Both the Commerce Department and Office of the U.S. Trade Representative were agencies that individual firms should be encouraged to contact directly with specific problems they run into working overseas. The current Administration was committed to helping U.S. businesses penetrate export markets more successfully, he said, so opportunities for help exist if companies would simply take advantage of them.

Mr. John D. Lange, Director of the Treasury Department's Office of Trade Finance, discussed current Administration efforts to reduce export credit subsidies by our trading partners as well as by our own Export-Import Bank. Under previous Administrations, he said, "We found ourselves matching one foolish subsidy with another foolish subsidy." As a result, the Eximbank has found itself in a deficit position for the first time in its history. A "war chest bill" had been introduced on Capitol Hill by Senator John Heinz (R-PA) and Representative Stephen L. Neal (D-NC) which would enable the Bank to continue matching foreign export credit subsidies with an additional $1 billion in funding,

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he added. This only amounts to a continuation of the same old trend, however, which is not really consistent with the Administration's free trade stance, he said.

Mr. Lange noted that the world's developed nations had just met to increase standard export credit rates to 10% on international trade. This represented a step in the right direction, even though the Japanese would have serious problems complying, but it was nevertheless still a heavily subsidized rate. The U.S. government is committed, he said, to eliminating all such subsidies.

her agency's work over the past several years to promote trade in services, which had not been specifically addressed during the Multilateral Trade Negotiations. Our trading partners have committed themselves to look seriously at trade in services, however, and the USTR's office was currently collecting data with the eventual goal of developing principles, rules, and procedures to allow a freer flow of that trade. Engineering-construction constitutes one of the primary U.S. services, she added, and the industry has been among the most cooperative in terms of providing assistance and support.

Ambassador Brock, left, Chairman Hodge, ACEC President William Ratliff

Financial support for project feasibility studies was discussed by Trade and Development Program (TDP) Director Christian Holmes, whose office represents one of the few federal agencies directly assisting U.S. firms competing overseas. The TDP has a twofold objective of fostering international development and of facilitating the sale of U.S. goods and services abroad, he said, especially for those projects with good prospects for eventually coming on line. These sales are seen as generating substantial revenues to the U.S. economy in the form of follow-on work and procurement.

Mr. Holmes described several examples of studies financed by TDP which led to large contracts to U.S. firms. These included a steel mill project in the Philippines and a coal gasification and natural gas pipeline project in Thailand. In describing projects likely to be addressed by TDP in the future, Mr. Holmes cited a coal conversion project in Panama, a mineral transport study in Peru, coal conversion facilities in Jamaica and Cyprus, and a petro-chemical project in the Philippines. "We have to really be able to prove that the Trade and Development Program does not just help the country develop, but also actually generates jobs in this country," he said. "I believe that it is vital that we do what we can to help countries develop, but I believe it is even more vital that we increase employment in this country."

Ms. Nancy Adams, an international economist with the Office of the U.S. Trade Representative (USTR), described

Ms. Adams concluded that the USTR's office hoped to become one of the foremost advocates of U.S. business interests overseas. "When you've got problems now getting into a market and you need assistance, we are going to try to do a better job . . . to resolve that problem for you," she said. It is anticipated that one outcome of this commitment will be a formal multilateral mechanism for solving problems in trade in services.

Mr. Dan Wilson described changes in the Foreign Commercial Service designed to improve the collection and dissemination of commercial intelligence overseas for the benefit of U.S. firms. The transfer of the FCS from the State Department to the Commerce Department had enhanced the business orientation of commercial officers in U.S. embassies around the world and should result in an improved analysis of business opportunities abroad. Foreign governments have traditionally placed great significance on their commercial representation around the world, he said, and the U.S. must do the same if we are to compete successfully.

One of the pioneering moves taken by the new Foreign Commercial Service, Mr. Wilson added, is the development of a program through which officers returning to the U.S. from overseas consult with trade associations representing companies active in areas where they are to be assigned. He noted that in this context, the Service had worked closely with staff representing the four constituent associations of IECIC to better understand the particular needs of their member firms which are competing abroad.

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H. Peter Guttmann, left, Eximbank Chairman William Draper, OPIC President Craig Nalen

Facing The Competition: Financing Projects Overseas

Moderator: **H. Peter Guttmann**, HPG Associates
Panelists: **William H. Draper III**, Export-Import Bank of the U.S.
Craig A. Nalen, Overseas Private Investment Corporation
William D. Trammell, Fluor Corporation

Citing recommendations made on export financing by the International Engineering and Construction Industry Council at its action conference two years earlier, moderator H. Peter Guttmann initiated the panel's discussion by stating that the inadequate supply of official U.S. export credits remains the single greatest disincentive facing American exporters. In 1979 participants in the IECIC V Action Conference had supported: a fourfold increase in the annual lending limit of the Export-Import Bank; authorization for the Bank to use concessionary financing to meet foreign competition; the development of a competitive program for financing project feasibility studies; the formation of a comprehensive worldwide insurance facility against foreign commercial, political and inflation risks; and the federal funding of commercial banks for making competitive fixed rate loans.

At the same conference, Mr. Guttmann continued, the various aspects of the French government's export support program were listed. Now, two years later, it was very interesting to study the success of French exports worldwide in comparison with our own, he said. The issues examined at IECIC V were still important for the current panel to consider, he concluded, and many of the same recommendations are still appropriate today.

Mr. William Trammell, Manager of Project Finance for Fluor Corporation, pointed out that the award of an engineering-construction project to an American firm had a great impact on the entire U.S. economy. Citing a $336 million Fluor project underway in Algeria financed by the U.S. Eximbank, Mr. Trammell noted that $220 million worth of supplies and services was sourced in the United States. In instances where the financing was secured elsewhere, however, as for the SASOL facilities in South Africa, the potential sales of equipment and services were lost to U.S. manufacturers. Unfortunately, the distinct trend in high technology projects of this nature was away from the United States, he said. Only the active intervention of the Eximbank in 1979 helped U.S. firms capture awards for several hydrocracker facilities, a technology in which we were clearly dominant 10 years ago. "Our overseas competition is using financing as a tool to overcome U.S. advantages in the international marketplace," Mr. Trammell concluded, and only by supporting a banking facility capable of reacting to the realities of the marketplace can we hope to survive as exporters.

Eximbank President William H. Draper III described the dilemma he saw himself facing as the Bank anticipated its first deficit. The promotion of exports is becoming an important part of public policy. The job of the Eximbank is not to replace commercial financing but rather to supplement and facilitate it where necessary, Mr. Draper stated, adding that the ability to accomplish export goals is dependent upon the success achieved by the entire Administration in improving the economic health and stability of the nation as a whole.

Describing the Eximbank's balance sheet for 1982, Mr. Draper concluded that under the current climate of budget cuts the Administration had to be concerned about the Bank's failure to show a profit. This is especially true for a President committed to eliminating the use of subsidies by governments to promote their firms in the international marketplace. "We consider export credit subsidies to be an unwarranted and extravagant interference with the operation of private markets and (are) determined to work for their elimination," he said. He hoped U.S. business would consider him a true partner in promoting U.S. export interests which should ultimately be based on the competitive benefits that an open and free enterprise system would provide.

With regard to the scope of the Bank's operations in FY 82, Mr. Draper stated that although he expected to have about $4.4 billion in lending authority, he was complying with the President's request for further budget reductions and was cutting back to about $3.9 billion. Of that amount, $1.5 billion had been committed in advance under the previous Administration, leaving only $2.4 billion for new loans. Considering the current demand for export credits by U.S.

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business, he admitted he faced a substantial problem in stretching available funds in as useful and productive a way as possible. He concluded by soliciting suggestions from the U.S. international business community for making the system work.

Mr. Craig Nalen, President and Chief Executive Officer of the Overseas Private Investment Corporation (OPIC), described his principle responsibility as enhancing and encouraging the investment of private U.S. capital in friendly third world countries. OPIC has traditionally provided political insurance against war, rebellion, insurrection, and the inconvertability of currency, he said, and under a new mandate from the Congress may now insure against civil strife. That mandate also expands the number of countries in which OPIC can work and now covers a great majority of the Third World.

Mr. Nalen did not share the satisfaction expressed earlier by Commerce Secretary Baldrige with the progress made by U.S. exporters in recent months. The figures compiled by OPIC showed that U.S. market share in the Third World continued to drop, a situation which must be remedied, especially in light of continuing U.S. trade and payments deficits. OPIC views itself, Mr. Nalen said, as playing a major role in encouraging firms to enter these export markets. He noted that OPIC had summarized the range of its programs in a brochure which was available to all conference attendees.

As a financially self-sustaining agency, OPIC has been able to expand its areas of coverage at a time when other agencies were forced to cut back, he said. The construction and engineering industries were particularly interesting to OPIC both because of their role in promoting follow-on work and because they had clearly not been getting their fair share of Third World markets in recent years. In addition to the more traditional investment insurance programs which were available to engineer-constructors, OPIC has also offered reconnaissance and feasibility study funding for potential investors, as well as training grants which have been very successful. Mr. Nalen noted that among the most significant projects undertaken by OPIC is a $1.7 billion contract to Blount Brothers Construction Corporation to build university facilities in Saudi Arabia. The increased level of commitment and determination expressed by the engineering-construction industry was evidenced by the industry's sponsorship of the IECIC Conference and participation in other seminars, he said, and should result in increased U.S. exports over the next few years. "I think we are passing through the threshold and are well on our way to seeing a real heating up of business activity overseas. And it is my expectation that this industry—construction and engineering—will play a leadership role in that movement."

Congressional Responsibility for U.S. Trade

Moderator: **John C. Richards**, The M. W. Kellogg Company
Panelists: **Senator John M. Chafee (R-RI)**
Senator Daniel K. Inouye (D-HI)
Representative Bill Alexander (D-AR)
Representative Jonathan B. Bingham (D-NY)
Representative Stephen L. Neal (D-NC)

Emphasizing the critical role the Congress plays in establishing U.S. trade policy, Moderator Jack Richards set the stage for congressional member presentations by urging conference participants and other industry representatives to provide more concise summaries of ideas for facilitating exports to the Congress and their staff. He reminded the audience that 75% of the legislative agenda is occupied by domestic issues, thus heightening the importance of accurate and timely educational efforts on the importance of service exports.

As a member of the Senate Banking Subcommittee on International Financial and Monetary Policy, Senator John Chafee said that he has devoted much of his time to date to three major export issues: the taxation of Americans abroad, the Foreign Corrupt Practices Act (FCPA), and the establishment of export trading companies. Strongly believing that the Congress has the responsibility to act on each of these issues, Senator Chafee led the fight for Senate approval of changes in the taxation of foreign earned income adopted in the 1981 Economic Recovery Act.

He also initiated legislation to clarify the ambiguities in the Foreign Corrupt Practices Act. In describing the changes adopted by the Senate on the bribery provisions, Senator Chafee stated, "While it is still not an absolute clear standard it is a major step forward. The proposed provisions state that a company is liable if they direct or authorize, expressly or by a course of conduct, a third party to pay a bribe." Specific reference was made to the lack of industry witnesses during the lengthy Senate committee hearings on the FCPA legislation.

Looking at the future of U.S. exports, Senator Chafee suggested a review of the general system of preferences and that we recognize the "geographic" shift on the focus of world trade from Western Europe to the Pacific base along with "the shift in the nature of our exports from goods to services."

Exports issues and North-South issues are the jurisdiction of the House Foreign Affairs Subcommittee on International Economic and Trade Policy, chaired by Representative Jonathan Bingham. The Overseas Private Investment Corporation's (OPIC) renewal was discussed by Mr. Bingham, with specific attention given to the new higher

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per capita income country restrictions which permit OPIC business in Cyprus, Taiwan, Jamaica, Barbados, Argentina, Turkey, and Brazil. Having had the vote in committee to expand the authorization of appropriations for the Trade and Development Program, Representative Bingham stated his doubts that the Administration would make any effort to strengthen the program, after placing it back under the AID umbrella. Oversight hearings on the administration of the Export Administration Act and on the competitive position of the construction industry will be held by Mr. Bingham's Subcommittee in the coming year and he welcomed industry spokesmen to participate.

Panel on Congressional Responsibility for U.S. Trade

Senator Daniel Inouye is the author of S.1233, a bill to promote service industries through new programs in the Department of Commerce, and a member of the Appropriations and Commerce, Science and Transportation Committees. During his comments on service exports, he stated, "This is the least understood and least appreciated of all the four major export areas as far as policymakers are concerned." Senator Inouye made several suggestions wherein the private sector could direct its efforts, one of these being a concentrated effort to obtain legislative equity for service exports, i.e. in comparison to manufacturers.

Discussing the extraterritorial application of antitrust laws, he said he believed in their strict application in the U.S. but added, "When we get outside, I think the best we should do is give our people the same kind of tools that other countries give theirs." On a positive note, the Senator commented, "Starting seven years ago I put in a bill every year to try to include services in the Webb-Pomerene Act. I think this time we are going to get it."

Representative Stephen Neal, as Chairman of the House Banking Subcommittee on International Trade, handles an issue critical to export growth, the Export-Import Bank. With the Administration supporting a reduction in Eximbank authorization, Mr. Neal has led the effort to set a new priority for the Bank, that of fighting export credit subsidies. The ultimate goal of Representative Neal is to reduce export credit subsidies, "so that products can compete on the basis of quality, service, price and so on instead of the competition being based on a big level of subsidy." Mr. Neal went into some depth describing the so-called "war chest bills" that emerged in the Senate and House. "There is the Heinz version which sets up a billion dollar war chest to be used to finance exports. Mine sets up a billion dollar war chest to be used to subsidize exports; we're trying to make sure that others don't subsidize theirs . . . we think ours is a little better because it would leverage that billion dollars several times." Both versions are a potential tool for U.S. negotiators. Another issue handled by Mr. Neal's committee is the International Monetary Fund. It is an institution he feels deserves continued full support, contrary to the wishes of the Administration.

Commenting briefly on the Export Trading Company legislation on which his committee held brief hearings, Representative Neal said he is urging the Judiciary Committee to solve its questions and to bring a bill to the House floor where he predicts a winning vote.

As immediate past chairman of the House Export Caucus and a member of the House Appropriations Subcommittee on Military Construction, Representative Bill Alexander has a wide-ranging knowledge of export disincentives.

The House Export Caucus was established to set trade priorities because, as Mr. Alexander stated, "Congress is not yet up to or is not organized in a way to promote foreign trade, promote foreign involvement." A quick glance at overlapping Congressional committee jurisdictions confirms this.

Many problems have developed overseas, stated Mr. Alexander, "Because of the naivete of the American people about the need for trade. One is the fact that we have

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mistreated our citizens living abroad." Commenting that the change in the tax laws did not go far enough, he said, "The practice of double taxation of Americans living abroad has led to the development and what we call the third countries' National Representative for American Companies."

Mr. Neal said he has introduced some legislation for consideration, including a bill to create a delegate in Congress for Americans living abroad. It would provide this constituency with immediate access to a non-voting member of Congress who had access to the committee structure. In summary, Mr. Neal said, "I agree with the other panelists here that it's time to assert the American way by becoming competitive overseas and promoting American products abroad. It is time to encourage Americans to extend the American business frontier to foreign countries."

The Administration's Commitment To Legislative Change

Paul Vander Myde, Assistant Secretary of Commerce for Congressional Affairs

Examining the current political arena from twenty years of government experience, Mr. Vander Myde viewed President Reagan as a leader who has come in and done the things he said he would. He predicted this same performance would carry over to legislative priorities in the export field.

The Department of Commerce has a vital role to play. Mr. Vander Myde said. "I think Ralph Nader has called us cheerleaders for business. Actually, I rather like that. I think that's a role the Department is playing and it can play and certainly it will play as long as Secretary Baldrige is at the helm," he stated, adding that after finishing the first task of putting together an effective team, the next step will be to use the Department to win legislative battles.

The Assistant Secretary outlined several legislative issues on the "front burner." He referred to the recent changes in the taxation of Americans working abroad as a "tax measure that goes a long way in trying to remedy that situation." Mr. Vander Myde noted the strong efforts by his Department to win passage of the Export Trading Company (ETC) legislation in the Senate and their ongoing efforts in the House. During the question and answer period, the ETC legislation was discussed. An industry representative urged Mr. Vander Myde, on behalf of the Administration, to let the Justice Department know the Administration supports the legislation. The private sector, stated the representative, can survive without banking support for the companies, but the antitrust provision, the other stumbling block, must be clarified. Mr. Vander Myde said progress was being made on this specific issue.

The Commerce Department is also working very closely with Ambassador Brock and the U.S. Trade Representative's office on clarification of the 1977 Foreign Corrupt Practices Act (FCPA). Recognizing that the vague standards of liability in the present legislation are a real disincentive to people working abroad, Mr. Vander Myde stated that a tough fight lies ahead to get the House to pass the Senate version of amending legislation.

Speaking in general about the Administration's program, the Assistant Secretary stated, "We really want to bring about a total package which is going to, I think, enhance our overall export position."

In a final comment from the audience concerning the need to grant international personnel at the Commerce Department the ability to gain and retain valuable experience in their positions without constant changing, Mr. Vander Myde wholeheartedly agreed and stated, "What we are fighting for at Commerce, in the sense of the revised March budget which is coming from OMB, is to have the flexibility to allow this."

Industry's Commitment to an Effective U.S. Export Policy

Luncheon Speaker: **Wilson V. Binger**, Chairman,
Tippetts-Abbett-McCarthy-Stratton
and President, International
Federation of Consulting Engineers
(FIDIC)

Under the assumption that there are two sides to every question, Mr. Wilson Binger opened his remarks by stating that the engineering, architectural and construction industries are not "unduly looking for federal government assistance" but are "only trying to stay in the running with our overseas competitors."

Lunch Speaker Wilson V. Binger

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"A new beginning is necessary. Furthermore, it is in the making." Mr. Binger felt there is much evidence to support the existence of a new attitude on the part of the Administration and the Congress. The challenge, stated Mr. Binger, is for industry to effectively respond. Progress on the tax laws, the concept of export trading companies, and proposals to clarify the Foreign Corrupt Practices Act were given as positive steps. Export financing and a closer rapport between the international business community and the diplomatic services of the U.S., however, are areas Mr. Binger agrees have not been sufficiently exploited. With respect to our diplomatic network including the new Foreign Commercial Service, he said, "As businessmen operating, or hoping to operate overseas, we should know about it, seek its help and seek to help it." Industry must take the responsibility to help educate the commercial officers of U.S. embassies.

Mr. Binger was careful to divide the responsibility for export promotion between the private sector and the government. He also, however, enumerated past frustrations he had experienced in working with government and asked the question, "If we are not treated properly by our own government, how can we expect to be treated properly by other governments?"

In summation Mr. Binger challenged all of the industries comprising IECIC to "take advantage of present opportunities, and create new opportunities, in order to recapture a major share of the overseas market." "All of us," he stated, "both government and private industry, have problems, and some of them are mutual; however, there is an old adage, particularly popular among engineers, that a problem understood is a problem half solved."

Government, Congressional and Industry Commitment to Rebuilding U.S. Exports

Moderator: **John S. Withers Jr.**, H. B. Zachry Company
Panelists: **Richard J. Hesse**, Harza Associates
Neil Krumwiede, Grove Overseas Corporation
Richard Roth Jr., Emery Roth & Sons
Herbert T. Gouldon, The Lummus Company
William E. Brock, U.S. Trade Representative
Raymond J. Hodge, Tippetts-Abbett-McCarthy-Stratton

Panel Moderator John Withers noted that the final conference panel was devoted to a wrap-up of ideas exchanged during the two-day session and would provide a forum, with the participation of Ambassador William E. Brock, to discuss implementation of these ideas. He asked for discussion by the association representatives in the following order:

Richard J. Hesse—Government Programs

"Before we can really act effectively, we've got to do two things: one is to provide the focus, decide what it is we want to do, and secondly decide who is going to do it."

In reviewing the current government export programs with respect to issues still requiring action, Mr. Hesse found areas where the private sector had more work to do than the government agencies. The first action item, he suggested, wherein industry has prime responsibility, is to provide accurate data on the positive effects of the change in taxation of Americans living abroad. The new tax law must stay in place, stated Mr. Hesse. "It will probably take us several years to recover the basis of operation that we lost as a result of the 1976 and 1978 tax laws. And we can't afford to let that happen again."

Again, industry must act in order to obtain more funding for feasibility studies. The agencies and specifically the Trade and Development Program cannot do much to obtain additional appropriations without strong and vocal support from private industry. According to Mr. Hesse, the very same rationale applies to the Export-Import Bank.

On a more positive note, Mr. Hesse felt the Foreign Commercial Service move to the Commerce Department is a good step. "Once again, the managers in Commerce will need the input from us. We are going to have to bring back reports from the field as to who's producing and who is not—and make the information available to the managers in Commerce."

Action items for the government agencies, according to Mr. Hesse, should be to inform the private sector about the existing advisory councils, who the representatives are, and what function the committees serve. Another is for the agencies to review their procurement processes. "Within the law, government agencies function in a manner which is consistent with the best interest of U.S. firms. Are the agencies using practices which are conducive to reducing overhead, hence increasing productivity?"

Herbert T. Gouldon, left, Ambassador Brock, Chairman Hodge

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Panel on Rebuilding U.S. Exports

Numerous action items for both industry and government are required for, as Mr. Hesse stated in his opening comments, "This whole matter of our export posture without question is a joint effort of the government and the private sector."

Neil Krumweide—Legislative Action

Mr. Krumweide, speaking for the industries represented by IECIC, presented the following list of legislative issues for action:

- Passage of the proposed amendments of the Foreign Corrupt Practices Act.
- Passage of the export trading company legislation including the provision to extend antitrust regulations of the Webb-Pomerene act to services.
- Passage of legislation simplifying anti-boycott laws and specifically repeal Section 999 of the IRS code which links tax benefits to compliance with boycott regulations.
- Increasing the funding authorization for the Trade and Development program.
- Passage of legislation greatly expanding the lending authority of the Eximbank in order to insure the competitiveness of the U.S. industry in financing projects overseas.
- Support passage of Senator Inouye's bill, S.1233, and its implementation by the Department of Commerce.
- Support by industry representatives for Congressman Bingham's hearings in 1982 on the competitiveness of the construction industry overseas.
- Re-examine provisions of the Export Administration Act, with specific attention to export licensing regulations.
- Consider Congressman Alexander's bill to allow a delegate in the Congress who represents overseas Americans affording him full access to the committee structure.

"All of these legislative proposals recognize that we want a free open competitive market. But we also must recognize that until our government is successful in its negotiations with the foreign governments who support our competitors, overseas legislation is needed to keep Americans working overseas," said Mr. Krumweide. Therefore, "Industry has a responsibility to help the Congress and the Administration with passage of these laws."

Mr. Krumweide expressed the thanks of industry for the work to date of the Administration on amendments to clarify the Foreign Corrupt Practices Act and the effort which won passage of tax relief for Americans working overseas.

Richard Roth, Jr.—Export Financing

Representing The American Institute of Architects in their first IECIC Conference, Mr. Roth praised the meeting for the information and knowledge he gained from it.

In his remarks on export financing, Mr. Roth stated: "My part of this summary is probably the easiest because as I read it, nothing has really happened in export financing: if anything it's gotten worse. With the attitude of the government in favor of trade but with the attitude to eliminate export credit financing, I feel we have to wait for a few countries that are competitors to go bankrupt so that one can be eliminated." Mr. Roth recommended that IECIC must re-evaluate government subsidy support of service professionals overseas and suggested that perhaps a new agency is needed. Mr. Roth placed the responsibility with the private sector to suggest to government how competitive financing can be found. "I think," said Mr. Roth, "If we can come up with some clever way without waiting for the bankruptcy of other countries, we can accomplish and make it acceptable in the political arena."

Herbert Gouldon—Putting Ideas in Action

"The purpose of the meetings is to develop mutual programs for redressing inequities affecting our ability to compete in international markets. The problems can be reduced very simply to two items: first, our foreign competitors are

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practically completely free of government restriction, and in addition they receive government subsidies. Secondly, we not only can't meet their competition, but in addition, of our own free will, of our own volition, we place impediments in our path. We do this without being forced to do this because of certain individuals in government who feel that this is the way we should conduct our foreign trade."

To restore our industries back to their position as number one, Mr. Gouldon suggests that IECIC first develop a cohesive, concise summary of all points discussed at the Conference. Having established a list of realistic, achievable goals, IECIC should then discuss them with the relevant government agencies, laying out programs and developing "a timetable for benchmarks of achievement." What must transpire is "a continuous dialogue." Finally, industry must do its homework and collect responsive data. Mr. Gouldon pointed out that IECIC VI was a historic conference in that Ambassador Brock, as this Administration's spokesman, served as keynote speaker and followed through to the final session. The Ambassador's participation was deeply appreciated by all, Mr. Gouldon said.

Ambassador Brock—Conference Follow-up

"The frustrations that I have with most things in life is that people have great ideas, but nothing ever happens. It's true in government, it's true in business and I think you do need a very true and specific agenda and organizational process which does have specific benchmarks and timetables to make your point." Ambassador Brock volunteered the help of his office in providing information, introduction, or access to government agencies where he believes many of the action items could be accomplished. Congress is the other battlefield. In order to proceed here, more business participation is needed and again Ambassador Brock made reference to the lack of it during the FCPA hearings in the Senate. When dealing with the government or the Congress, Ambassador Brock said "not to lose sight of the fact that we work for you. If you have an incompetent employee, he either shapes up or ships out." Elections also provide that opportunity.

Referring to earlier comments on the Foreign Commercial Service, the Ambassador welcomed industry input. "If you all run into problems out in the embassies of this country and around the world and don't tell us about it, there is not a thing in the world we can do about it because we won't even know it exists."

Finally, Ambassador Brock praised the advisory council system and urged its use by other government agencies. "If you would suggest to the other agencies of government that you are interested in this sort of thing, and press them on it, I think we could start making the difference in developing a much closer relationship between the business community and the government."

In summarizing his thoughts on the entire Conference, Ambassador Brock emphasized that the opportunities "out there" haven't been adequately seized, but we can. "If we don't take trade as the cutting edge of our economic recovery, we are going to have a much slower economic recovery . . . The export potential of this country can cut our interest rates, it can increase our sales, it can increase our earnings and our productivity and our profitability, all of which are essential to our domestic well-being."

In answer to a question on how to improve industry's dialogue with the government and how industry perceives those people who are on the other side of the argument, Ambassador Brock again noted the desirability of more advisory committees in every agency. In response to another question, the Ambassador stressed the requirement for accurate data and the presentation of that data. Referring to the commonly quoted figure of 40,000 jobs for every billion dollars in exports, he warned, "One of the hazards in using numbers is that it is not true in a lot of sectors and is probably not true in this one."

Examining the construction engineering industries arguments of export subsidies, Ambassador Brock stated that the case was being made the wrong way. "If you want to be competitive, let's get competitive. Let's just take the tax off exports. You can't stop at that point, you've got to do your numbers, you've got to quantify what it is you get for giving up something." He concluded, "We've got to change the attitude of government and how they look at things. All the way up and down the line."

IECIC Conference in Session

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Closing Remarks Of the IECIC Chairman

Although the conference was primarily a discussion of problems, Chairman Ray Hodge closed the IECIC VI Action Conference by describing the progress that has been made in conquering export disincentives. "Part of the reason for this is the efforts of this group and other groups. In addition, we have an Administration that has committed itself towards expanding the business sector and the private sector. An Administration committing itself to exports. An Administration that is willing to listen to us and work with us. So, I really think things are getting better," he stated.

While more work is needed on remaining disincentives, the Chairman suggested it is time "To get on the business of increasing incentives." In this regard, the IECIC Chairman called on IECIC for the establishment of a set of action priorities and a rethinking by IECIC on the current methods of educating and communicating with the Congress.

Conclusions and Future IECIC Action

Stemming from this VI Action Conference of IECIC were a number of concrete conclusions and possible courses for the engineering and construction industries to take to enhance the position of this nation in the world's marketplace. Due to the unanimously fine calibre of the participants in this Conference, it was agreed by the attendees that the attention of the U.S. government had been attained and that it was sympathetic in supporting mutual efforts to enhance the export stature of these industries.

Two principle conclusions emerge from the VI Action Conference:

1. There is need for clearer and more direct communication between the international engineering and construction industries and the Government of the United States, i.e., the Administration and the Congress.
2. To this end the industry and the government must jointly assemble a comprehensive data base to inform Congressional legislation and consequent Executive policies.

The U.S. Government appears to have finally recognized that its tax and trade laws were not well serving the international practice of American engineering and construction skills. Revision of the tax laws applied to U.S. citizens working abroad is an initial and significant step to remedy these difficulties. An IECIC Action Committee has now been empanelled by the IECIC Chairman to sustain this progress by developing recommendations for further legislative and executive action concerning:

—Substantially more competitive methods of financing overseas projects
—Effective export promotion policies
—Reduction of international protectionist practices
—Continued improvement of the Foreign Commercial Service
—Modification of the Webb-Pomerine Act, the Foreign Corrupt Practices Act, the anti-boycott provisions of the Export Administration Amendment of 1977, and section 999 of the Internal Revenue Service Code.

The primary goal of the IECIC Action Committee is thus rather clearly delineated—a plan for "Rebuilding American Exports," the theme of the IECIC VI Action Conference. This plan will require the participation and cooperation of the Administration, the Congress, and our industries. Any less an effort, after so successful a Conference, would negate the tremendous step forward achieved in October 1981.

Richard Roth, left, and Chairman Hodge

Ambassador Brock, left, IECIC Secretary J. K. Morrison

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IECIC VI Action Conference Attendees

Allen M. Acheson
Black & Veatch International
Kansas City, MO

Nancy Adams
Office of the U.S. Trade
Representative
Washington, DC

Peter I. Afanasenko
UOP Inc.
Washington, DC

Ahmad Akhavan
Bonanza Engineering, Inc.
Vienna, VA

Albert Alexander
U.S. Department of Commerce
Washington, DC

Hon. Bill Alexander
United States Representative
Washington, DC

George H. Andrews
Morrison-Knudsen Co., Inc.
Washington, DC
IECIC Delegate

Samir Asmar
Hospital Trust National Bank
Providence, Rhode Island

Roy Attride
Morrison-Knudsen Co., Inc.
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Hon. Malcolm Baldrige
Secretary of Commerce
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William W. Beddow
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Washington, DC

Jim Berger
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Chairman **Gibbons**. I thank all of you for your participation. I think most of you were present when the AFL-CIO testified about their concern regarding the legislation.

How would you answer their concern? Were you all present at that time?

Mr. **Shelp**. Mr. Chairman, the way I understood the thrust of the AFL-CIO testimony, it was a belief in a bilateral approach as opposed to a multilateral.

Chairman **Gibbons**. That is the way I understood it.

Mr. **Shelp**. I would agree with them to the extent I think we should continue having bilateral negotiations while we are preparing for the long multilateral negotiations. What concerns me is the number of barriers there are. If you have seen the computerized printout of the Trade Representative's Office, there are some 2,000 barriers, the list running to 220 pages. The thought of addressing those individually on a bilateral basis strikes me as the sort of exercise that would take even longer than multilateral negotiations. That is why in the long term I believe we should have multilateral negotiation and international rules. That offers the best chance of minimizing these restrictions.

Mr. **Freeman**. Both the SPAC, Services Policy Advisory Group to Ambassador Brock and the ISAC at the Department of Commerce level are broadly representative of people from various size businesses and various industries and labor representatives. This will be discussed and has been discussed, as those committees go on as you go into a study program phase, which is all we are talking about, for at least a couple of years and then into negotiations if and when they come.

I do not think this is any kind of confrontation between management and labor. We are really talking about perhaps negotiating techniques. We all think there are and there will be bilateral problems and bilateral negotiations. We all think there would be multilateral negotiations under the GATT, most likely, if not exclusively. What I think the representatives from the AFL-CIO are very concerned about, as mentioned earlier, is some kind of negotiation where you get one traded off against another to the prejudice of the employee working force. We are also concerned about that. But I think they are more in favor of looking at it a little longer before we sort of take that first leap.

The rest of us are now ready to say OK, we have to start moving because of the circumstances we have all described. I think it is a matter of degree, not a confrontation.

Chairman **Gibbons**. Very good. That is good to hear.

I thank you all for coming. I hope that we can accelerate this legislation on the agenda, get it considered and passed this year. That is my objective.

Mr. **Shelp**. Thank you very much.

Chairman **Gibbons**. Before I call our last panel, let me say I am going to get you started here.

I have just been informed by my electronic wizardry up here that we are about ready to vote on the Obey substitute. If I have to interrupt you, I hope that you will understand.

Our final panel is composed of people who are interested in high technology. If they would all come forward, I think they know who they are, Computer & Business Equipment Manufacturers Association, Pfizer International, Semiconductor Industry Association, Perkin-Elmer Corp., and American Electronics Association.

While you are taking your positions—the bells have just gone off—I will go vote and be right back.

[Recess.]

Chairman Gibbons. Let us resume. Our first witness is Mr. Henriques.

STATEMENT OF VICO E. HENRIQUES, PRESIDENT, COMPUTER & BUSINESS EQUIPMENT MANUFACTURERS ASSOCIATION

Mr. Henriques. Thank you, Mr. Chairman.

This statement is on behalf of the Computer & Business Equipment Manufacturers Association, which represents 37 companies accounting for 85 percent of the sales volume of computers and business equipment produced in the United States.

During 1981, CBEMA member companies had revenues in excess of $50 billion, employed 750,000 workers in 50 States, and had a trade surplus of $7 billion.

Because the CBEMA companies rely so heavily on exports and foreign investment, we welcome this opportunity to comment on the various trade bills, particularly those bills relating to high-technology trade now pending before the Congress.

Furthermore, we would like to compliment the chairman of the subcommittee, Mr. Gibbons, for holding this hearing to permit a discussion on trade in services and in high-technology products.

Before we address specific issues, we believe it is essential to discuss trade policy principles during this period of rapid economic change. Such a discussion permits us to review the past and to look into the future.

It also requires all of us to assess the successes and failures of our trade policy, to articulate what the basic principles underlying that trade policy should be, and to identify those areas in which U.S. international trade policy must be adjusted to address the problems of the future.

Given the subject of this hearing, we believe it is essential to consider, if only briefly, the origins of modern U.S. international trade policy.

For the past 50 years the goal of our trade policy has been to expand open and nondiscriminatory world trade. Since enactment of the Reciprocal Trade Agreements Act of 1934, the fundamental principle underlying this policy has been most-favored-nation treatment for imports into the United States and for U.S. exports to other countries.

During the same period, an equally important corollary to the MFN principle has been national treatment for American goods and investment once they have gotten past a foreign country's borders and entered the foreign marketplace.

Since the General Agreement on Tariffs and Trade came into existence in 1947, the United States has pursued its trade policy goal largely through multilateral and bilateral trade negotiations under the auspices of that institution.

In these GATT negotiations, the United States has always sought and should continue to seek concessions from other countries which are of comparable benefit to the concessions granted by the United States.

Under the GATT system, of course, trade concessions are generally granted on an MFN basis with the result that each GATT member country achieves benefits which are, on a global basis, comparable to the concessions it grants.

In this sense, U.S. international trade policy has incorporated the concept of negotiated reciprocal benefits for many years and should continue to do so.

The international trading system, which was designed largely by the United States, and the U.S. international trade policy since 1934 have resulted in enormous benefits, both for the United States and the world. These benefits have been achieved through progressive lowering of barriers to trade in goods and elimination of discriminatory practices which distort trade.

This approach to international trade policy has been remarkably successful. The statistics now speak for themselves.

U.S. international trade now accounts for almost 17 percent of our gross national product. Furthermore, it has been estimated that one in six manufacturing jobs is attributable to manufacturer for export and that one in three acres planted by U.S. farmers produce crops for export.

It is obvious that our trade policy has, generally speaking, served the interests of the United States well in the past. The question which has been raised recently is whether it will continue to promote the interests of the United States.

In the future, competition for world markets will intensify. Government intervention in the marketplace will increase, inevitably creating new forms of barriers to trade and investment and discrimination. Furthermore, the United States will become even more dependent on exports and imports.

These changes in the world economy and in the importance of international trade to the United States are not speculative. They are realities, realities which are already having a significant impact on U.S. commerce today.

U.S. trade policy must be based on a firm understanding of these new realities. It must aggressively seek elimination of new barriers and distortions to trade in goods and services and to U.S. investment abroad.

It is emphatically our view that the best framework in which to carry out such a trade policy in the future is through negotiations within the existing international structure and existing U.S. international trade statutes.

We hold this view because of the historical success of this approach for the United States. Furthermore, we are convinced that American industry can compete effectively on world markets if existing domestic and international rules are honored.

Therefore, we are convinced that there is absolutely no reason to question the basic goal or the fundamental principles of U.S. international trade policy.

THE "NEW" RECIPROCITY?

We feel compelled to make this assertion because recently there has been much debate about the need for a fundamental change in U.S. international trade policy.

The frustrations leading to this debate are real. Persistent trade deficits, lack of compliance with or avoidance of international trade rules, such as GATT, and increased competition from both developed and developing countries are realities.

These realities, however, do not prove that the U.S. international trade policy is not working. Nor do they prove that the international trading rules do not work. In our view, these realities require action within the traditional system. They do not require destruction of a system that has served our interests well.

Nonetheless, some people have suggested that U.S. trade policy should be based on what they conceive to be a new principle of retaliatory bilateral reciprocity.

As members of the subcommittee know, this principle, taken to its extreme, would require that for every product imported into the United States from a given country, there be one similar product exported to that country from the United States.

There appear to be two arguments used by the proponents of retaliatory bilateral reciprocity for moving from the MFN and national treatment principles to the "new" reciprocity as the basis for our trade policy.

First, the historic procedure for eliminating trade barriers and discriminatory practices through GATT negotiations, the results of which are implemented on an MFN basis, will not work in the future.

Second, existing international rules and U.S. laws do not adequately address the problems of the future.

With respect to the first argument, retaliatory bilateral reciprocity is not a new concept. We cannot forget history. Before the 1930's, the United States did pursue a trade policy based on retaliatory bilateral reciprocity. According to a 1919 report on reciprocity and commercial treaties by the U.S. Tariff Commission, the result was:

> (A) policy of special arrangements [leading] . . . to troublesome complications. . . . When each country with which we negotiate is treated by itself and separate arrangements are made with the expectation that they shall be applicable individually, claims are nonetheless made by other states with whom such arrangements have not been made. Concessions are asked; they are sometimes refused; counterconcessions are proposed; reprisal and retaliation are suggested; unpleasant controversies and sometimes international friction result.

The consequence was beggar-thy-neighbor trade policies, which played a major role in making the 1929 depression the most severe in world history.

There is no reason to believe that the results of a policy of retaliatory bilateral reciprocity would be any different in the future. Each country would seek special arrangements exclusively benefiting its trade. The result was, and would be, a dramatic increase in barriers and distortions resulting in dramatic collapse of world trade.

There is considerable evidence that a trade policy based on reciprocity cannot work and will, in fact, injure the United States.

There is also considerable evidence that a trade policy based on negotiations, multilateral trade rules and the MFN and national treatment principles will achieve benefits for the United States.

THE NEED FOR CHANGES IN GATT

The second argument used by proponents of the new reciprocity is that existing international trade rules and U.S. statutes do not adequately address the problems of the future. Although we believe that certain limited changes to U.S. statutes and changes to the GATT rules are necessary to address the problems of the future, we do not believe that the adequacy, or lack thereof, of U.S. law or the GATT has any bearing on the appropriateness of MFN and national treatment as the basis for United States international trade policy.

With this in mind, we point out that it is obvious that existing international rules, such as the GATT or Treaties of Friendship, Commerce, and Navigation, do not adequately address certain problems. For example, barriers to international investment flows, to certain kinds of high technology trade, for example, international information flows, and to international trade in services are not currently subject to any effective international discipline.

These problems will become increasingly significant in the future. It is imperative that the United States make every effort to cure the inadequacies of the existing international system in this regard through negotiation of new rules at the earliest possible date. We strongly support the initiative of the administration, and particularly of Ambassador Brock, in seeking to raise the problems of investment, high technology, and services at the GATT ministerial meeting this November. It is imperative that the United States sustain this effort which will inevitably require several years of hard work and negotiation.

It is even more obvious that existing international rules must be enforced aggressively and effectively. We cannot conclude that the GATT system does not work until we and the other GATT members have made a genuine effort to make the system work. This effort must include aggressive use of dispute settlement procedures by the U.S. Government to assure compliance of other countries with the GATT rules. Finally, and most significantly, this effort must be effective. That is, our trade negotiators must consider the nature of the GATT system and the kinds of disputes which, realistically, can be resolved through that system.

On this point, it is important to remember that GATT is not a court. Nor is it a purely political institution. It is a system of rules requiring or prohibiting certain kinds of Government behavior with procedures for resolving disputes under those rules.

In essence, the GATT is an institution which is designed to force negotiated resolution of international trade disputes within a framework of legal obligations. Disputes which relate to Government laws, regulations, or policies, and which present violations of the letter or spirit of GATT rules are clearly suitable for negotiated resolution within the framework of the GATT rules. It is this kind of dispute which the U.S. Government should pursue aggressively through GATT.

Turning now to existing U.S. trade statutes, we believe that a primary issue is whether the President is using his current authority to take appropriate and effective actions in pursuit of the goals of the U.S. trade policy. We do not believe the executive branch has done as much as it can do under existing law.

With some exceptions, which we discuss later, we strongly believe that the existing statutory framework is sufficient to permit effective action if the President chooses to use that authority. The President has extraordinarily broad authority to take actions in the pursuit of better access to foreign markets. Sections 102, relating to nontariff barrier agreements; 122, relating to balance of payments; 123, relating to compensation authority; 301, relating to unfair trade practices; 404 and 405, relating to treatment of nonmarket economies; and 501, relating to GSP, of the Trade Act of 1974 are just some of the statutory provisions which the President may use to pursue U.S. objectives through negotiations. These provisions give him leverage during negotiations by enabling him to threaten action should the negotiations fail. They also give him authority to retaliate, in fact, in accordance with GATT rules if negotiations do fail.

Rather than spending an inordinate amount of time discussing the terms of new, unnecessary, authority based on the "new" reciprocity, we should consider whether existing legal authority is being used as effectively as it can be used. We do believe it would be helpful to incorporate a number of the concepts we discuss below into U.S. trade statutes.

However, to the extent that legislation focuses solely on the misconceived and, in our view, largely irrelevant concept of bilateral retaliatory reciprocity, we are convinced that such legislation is not timely. This is because the current condition of the economy and the emotional level of the current debate on the "new" reciprocity requires forward looking and positive proposals if we are to avoid a Christmas tree decorated with numerous counterproductive protectionist proposals.

ISSUES RAISED BY PENDING BILLS

Let me now turn to positive concepts which will promote rather than impair trade, in particular, high-technology trade. A number of bills before the Congress, including H.R. 6433 and 6436, would provide the President a mandate to enter into international high technology, investment, or services negotiations. We believe this makes good sense in the context of traditional U.S. trade policy. Such an action on the part of the Congress would be a significant signal to our foreign trading partners that the initiatives of the administration in these areas have the support of the U.S. Congress and U.S. business communities.

We also believe that the concept of adding investment practices which are unreasonable, unjustifiable, or discriminatory to the scope of section 301 would be useful. In this regard, we believe it is important that the President not be required to retaliate against foreign investment during an investment dispute. We would go even farther and not grant the President any new authority under section 301 to restrict foreign investment in the United States. We believe that, in an investment dispute under section 301, the President should be permitted to retaliate against goods or services using his section 301 authority or to retaliate against investment under other existing authority.

A number of bills, including H.R. 6433, would require the USTR and the Department of Commerce to conduct regular studies of foreign government laws and practices, including high-technology industrial policies, to identify barriers to trade. We believe this concept makes good sense so long as the administration is not required to take action based on the results of a study or to reveal its negotiating strategy and tactics.

During his testimony before the Subcommittee on International Trade of the Senate Committee on Finance, Ambassador Brock suggested that a statutory provision authorizing the President to enter into negotiations to eliminate or reduce barriers under foreign government laws or practices designed to protect and promote their high technologies would be desirable. H.R. 6433 contains such authority. We support Ambassador Brock's suggestion.

However, a number of bills imply that sectoral trade balancing in the quantitative sense should be a goal of trade policy. This kind of sectoral approach to trade policy is dangerous. Taken to its logical extreme, quantitative sectoral reciprocity could stop all trade. As stated earlier, we believe the basic principles which must underlie U.S. trade policy are MFN and national treatment across the board.

Some bills would amend section 301 of the Trade Act of 1974 to add a cause of action for the denial of competitive opportunities equivalent to those in the United States. In our view, the practices now covered by section 301, that is, those that are unreasonable, unjustifiable, or discriminatory, cover virtually any foreign government action which impairs open market access. We are not convinced that there is any need for change.

Some bills permit independent regulatory agencies to consider discriminatory foreign government practices when they review foreign government activities within their jurisdiction. This would create multiple trade policies beyond the control of the President, and, therefore, would be unacceptable.

Some bills would permit the President to unbind tariffs in GATT and to raise U.S. tariffs on certain newly developed competitive or high technology products. We believe this concept is extremely dangerous. It would serve as an open invitation to other countries to do the same thing to protect their "infant industries" thereby excluding many of our most competitive exports, such as the exports of the companies which are members of CBEMA.

A number of bills, including H.R. 6433, would authorize the President to negotiate increases or reductions in U.S. tariffs through trade agreements. We believe this is a necessary authority for the President. For this reason, CBEMA urges the extension of tariff negotiating authority under section 124 of the Trade Act of 1974 or comparable authority.

CONCLUSION

In conclusion, the goal of U.S. international trade policy must be to continue to expand open and nondiscriminatory world trade. The existing international trading system is the best structure in which to pursue this goal. The MFN and national treatment principles are the most principles on which to base this policy. We do believe that certain changes in the scope of GATT must be made to address problems of investment, services, and high-technology trade.

We also believe that certain changes in domestic law are desirable to promote negotiations on investment, services, and high-technology products. However, we underscore that the essential issue before us today is into the adequacy of international or domestic rules. Rather, the essential issue is the willingness of the executive branch to aggressively and effectively to pursue the basic goals of our trade policy.

[An attachment to the prepared statement follows:]

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Chairman GIBBONS. Our next witness is Mr. MacTaggart.

STATEMENT OF BARRY MacTAGGART, CHAIRMAN AND PRESIDENT, PFIZER INTERNATIONAL

Mr. MACTAGGART. I am Barry MacTaggart, chairman and president of Pfizer International, a subsidiary of Pfizer, Inc. Pfizer is a research-based pharmaceutical company, with additional businesses in specialty chemicals, agriculture, materials science, and consumer products.

In 1981, Pfizer had worldwide sales of $3.2 billion. More than one-half of these sales were from foreign operations.

Pfizer's international businesses, like those of most U.S. pharmaceutical companies, are primarily handled through foreign subsidiaries. This is due, in part, to the regulated nature of our industry.

With the exception of certain antibiotics, U.S. statutes prohibit the export of drugs not yet approved for marketing in the United States by the Food and Drug Administration. Since our new drug products are generally approved by foreign regulatory authorities sooner than in the United States, we must manufacture abroad if we wish to enter these foreign markets.

Pfizer first went abroad in the early 1950's and currently has organizations in 62 countries, manufacturing operations in 38 countries and sales in over 100 countries.

Before turning to the subject of today's hearing, permit me to make two related comments.

First, we must be careful not to define the issue of high-technology trade and investment too narrowly. High technology is a concept best viewed in the broadest terms possible. When someone refers to "high-tech" products, there is a tendency to think only of computers, semiconductors, or micro chips.

In the United States, however, innovation can be found everywhere and not only in the traditional R. & D.-based industries. Agriculture is a prime example.

Whether it is in the production of new equipment that increases productivity, the development of land reclamation technologies, the discovery of new pesticides or fertilizers that increase crop yields, or the development of genetically improved livestock, agriculture in the United States is a high-technology business and the United States is the world's leading high-technology agricultural producer.

Second, the recent debate over high-technology trade and investment has focused upon distortions imposed by foreign nations. But there is also a domestic dimension to the issue. No matter what occurs abroad, we cannot be competitive in international markets unless we have a domestic economic environment conduciye to investment, research and development, productivity, and stable economic growth.

We must carefully examine how domestic economic policies and practices discourage technological innovation. This is not to suggest that the U.S. Government take on the role of national planner or America, Inc. It means that our Government must recognize, as our trading partners have, that Government policies should not impede private research and development.

In this regard, we welcomed the House Ways and Means Committee's approval last year of the R. & D. provision of the Economic Recovery Tax Act of 1981. The 2-year moratorium on the R. & D. allocation requirements of section 861.8 of the IRS Code was a laudable step toward eliminating a regulation that penalizes domestic R. & D. and drives U.S. research dollars abroad.

I understand that legislation to make the 861 moratorium, as well as the R. & D. credit provisions, permanent parts of the IRS Code has already been introduced by members of this committee. I urge you to give this proposal your serious consideration.

Other domestic impediments to innovation remain, however. There are significant weaknesses in the U.S. patent system, for example. U.S. patent law provides a holder of a patent with 17 years of market exclusivity.

However, for products like ours that are subject to premarket testing and regulatory approval, almost one-half of the patent life is gone by the time a product is approved for commercial marketing. This significantly reduces our ability to recover R. & D. costs.

To rectify this, legislation is pending in the Congress to restore the patent life lost due to Federal regulatory review requirements. It is our hope that the legislation will be enacted this year.

Turning to the specific subject of this hearing, increasing foreign impediments to international trade and investment are, nevertheless, a real and growing problem.

As tariffs, the traditional barriers to world trade, have been substantially reduced through multilateral negotiation, less easily identifiable, though equally distorting, nontariff barriers [NTB's] have flourished.

And NTB's are often directed toward high-technology industries in which the United States has traditionally been most competitive.

While increasingly protectionist policies abroad are partly due to the worldwide recession, they are also due in part to structural changes in the international economic system.

Technology has replaced capital as the scarce international resource. And the source of international competitiveness in the 1980's and 1990's will be in the knowledge-based, research-intensive industries.

Our major trading partners, both in the developed and newly industrialized countries, recognizing this reality have responded through national economic policies that target and favor high-technology products and industries.

National industrial policies established in Europe, Japan, and the newly industrialized countries have significantly altered the international environment in which U.S. high-technology trade and investment take place.

How have such national industrial policies affected a research-based company such as Pfizer? In the majority of developed countries, at least, we have received treatment essentially equal to that given to national companies.

Although we have not always been totally happy with some specific situations in each and every country, overall we have been treated quite equitably, and several barriers that formerly existed no longer exist.

We find that most of the significant burdens on our business are in the developing rather than the developed world. In addition to the various impediments common to most industries, a critical problem for us is patent protention. It may well be the single most important factor in determining whether we can compete effectively.

In Brazil and Indonesia, for example, no patent protection is available for pharmaceuticals. In countries such as Argentina, Taiwan, and Korea, there are patent laws on the books, but the failure of the judicial systems to enforce patent rights makes the laws virtually meaningless.

There are even some developed countries where the patent laws are a serious barrier to the research-based pharmaceutical industry. In Canada, for example, pharmaceutical products are subject to compulsory licensing statutes. The licensee spends nothing on research and his marketing expenses are minimal because he usually waits until we have developed a market before he enters it. Thus he is able to undercut our price and still make a substantial profit.

In a similar vein, Australia and New Zealand are studying the feasibility of weakening existing strong patent laws for the benefit of local industry.

These specific patent problems reflect the more general questions facing U.S. policymakers today. How should we deal with the new economic realities in the world marketplace and with the growing barriers to U.S. trade and investment resulting from increased protectionism abroad? The task seems twofold.

First, the United States must find a way to balance the legitimate rights of foreign sovereign governments to set national priorities and to implement policies to stimulate domestic economic and technological development with the legitimate right of U.S. firms to be treated fairly and equitably in foreign markets.

Second, the United States should seek the elimination of unreasonable and distorting barriers to trade and investment in a way that strengthens and builds upon existing international rules and treaties governing trade.

The question before this subcommittee is whether the High Technology Trade Act or similar legislation is necessary to achieve these objectives. We think not.

As a multinational company, we are concerned about any legislation that attempts to establish a United States "treatment standard" of market access or right of establishment. Few, if any, foreign countries could be reasonably expected to meet such a standard, no matter how laudable or desirable an objective this may be.

In addition, we believe that legislation focusing exclusively on the problems of high technology industries would be ill advised at this time. We have not yet adequately defined what constitutes a high-technology industry or product.

In addition, while we can point to burdensome performance requirements or investment restrictions, we have not developed sound criteria to judge which foreign governmental policies are legitimate rights of sovereignty and which are truly capricious or trade-distorting and thus should be eliminated.

Finally, technology is always in a state of flux. Remedies to the problems confronting us today must result in enough flexibility to deal with new problems in the future. In sum, we believe that greater study of the high-technology problem is necessary before proceeding with any legislative solution.

What then are Pfizer's recommendations to this subcommittee?

First, the United States should establish patent protection as a top priority, and should pursue this objective in every available forum. A place to begin is at discussions being held in October on the Paris Convention on Industrial Property, the basic legal instrument governing international relations in patents.

At the present time, the United States is the only country that opposes weakening patent rights in the convention.

Second, we must develop the political will to use the trade and investment tools that we already have to address trade-distorting policies. I believe that the United States, through existing multilateral obligations and trade laws, has the tools to deal with many of our high-technology trade problems.

Additional legislation is needed only to round out these tools, for example, extension of section 301 of the Trade Act of 1974 to cover services and investment and renewal of section 124 to grant the President residual tariff negotiating authority.

Third, in planning for the future, actions directed toward the policies of foreign governments are not enough to insure our competitiveness. We must also take a serious look at U.S. domestic policies that impede technological innovation.

In this regard, we urge the Congress to:

One, enact the Patent Term Restoration Act of 1982; two, make permanent the moratorium on section 861.8 regulations which require the allocation of a portion of R. & D. expenditures abroad; three, make permanent the recently enacted credits for increases in R. & D.; and, four, initiate a reevaluation of the domestic economic policies in the regulatory, antitrust and tax fields to assess their impact on U.S. international competitiveness.

I wish to thank the subcommittee for allowing me to present our views on this important trade subject.

Chairman GIBBONS. Thank you very much.

[The prepared statement follows:]

STATEMENT OF BARRY MACTAGGART, CHAIRMAN AND PRESIDENT, PFIZER INTERNATIONAL

I am Barry MacTaggart, chairman and president of Pfizer International, a subsidiary of Pfizer Inc. While Pfizer Inc, is best known as a research-based pharmaceutical company, it also has substantial businesses in specialty chemicals, agriculture, materials science and consumer products. In 1981 Pfizer Inc., had worldwide sales of $3.2 billion. More than one-half of these sales were attributable to foreign operations.

Pfizer's international businesses, like those of most U.S. pharmaceutical companies, are primarily handled through foreign subsidiaries. This is due in part to the regulated nature of our industry. With the exception of certain antibiotics, U.S. statutes prohibit the export of drugs not yet approved for marketing in the United States by the Food and Drug Administration (FDA). Since our new drug products are generally approved by foreign regulatory authorities sooner than in the United States, we must manufacture and often engage in research abroad if we wish to market abroad. In fact, the diverse testing and regulatory approval requirements of nations frequently necessitate that we produce in the nation or region in which we seek to market. In this vein, Pfizer first went abroad in the early 1950's and currently has organizations in 62 countries, manufactures in 38 countries, sells in over 100 countries.

Before turning to the subject of today's hearing, I wish to raise two points that I think directly impact on this subject. First, we should be cautious not to perceive the issue of high technology trade and investment too narrowly. High technology is a concept not easily defined, and it is best viewed in the broadest terms possible. When someone refers to "high tech" products, there is a tendency to think only of computers, semiconductors, or micro chips. However, this is only one sector of the U.S. high technology base, albeit with a particular set of problems in world trade. In the United States, however, innovation can be found everywhere and not only in the traditional R. & D. based industries, such as our own.

For example, if new technological developments result in new and better machinery that increase productivity and quality in a light or heavy manufacturing industry then that new machinery is "high technology". Similarly, a consistently overlooked high technology sector in the United States is agriculture. But agriculture is a sector in which the United States clearly retains a technological edge. Whether it is in the production of new farming equipment that increases productivity, the development of land reclamation technologies, the discovery of new pesticides or fertilizers that increase crop yields, or the development of genetically improved livestock, agriculture in the United States is a high technology business and the United States is the world's leading high technology agricultural producer.

Second, while much of the attention in the recent debate over the high technology problem has focused upon distortions created by trade and investment policies and practices of foreign nations, it must also be recognized that there is a domestic dimension to the issue. No matter what occurs abroad, we cannot be competitive in international markets unless we have a domestic economic environment conducive to investment, research and development, productivity, and stable economic growth.

In the private sector, the impetus for technological innovation is the willingness to assume risk—to invest in the discovery process knowing that it may take several years and many failures to produce a viable, marketable new product or process that is competitive in U.S. and world markets. Unless there are expectations of reasonable return on this investment, they will not occur. If government policies have the effect of increasing risks or reducing expectations of return, fewer investments will be made. Hence we must carefully examine the extent to which the existing relationships between U.S. Government and business as well as domestic economic policies and practices serve as disincentives to technological innovation. While we are not suggesting that the U.S. Government take on the role of national planner or America Inc., it is important that our government recognize, as our trading partners have done, that government policies in certain instances should encourage and at least should not impede private research and development. This is particularly important now when Federal expenditures on basic research are decreasing, thereby placing a greater burden on the private sector to maintain our technological lead.

In this regard, the House Ways and Means Committee's approval last year of the R. & D. provisions of the Economic Recovery Tax Act of 1981 is an example of the type of government support that high technology businesses need. The two-year moratorium on the R. & D. allocation requirements of section 861.8 of the IRS Code was a laudable first step towards the elimination of a regulation that does nothing more than penalize domestic R. & D. and drive U.S. research dollars abroad. I understand that legislation to make the 861 moratorium as well as the R. & D. credit provisions a permanent part of the IRS Code has already been introduced by members of this committee. As you begin deliberations on a tax measure this year, I sincerely hope you will keep the needs of our research-intensive industries in mind.

Other domestic impediments to innovation remain, however.

An excellent example of such an impediment is a current weakness in the U.S. patent system. U.S. patent law provides a patent holder with 17 years of market exclusivity. This is designed to reward the inventor for his contribution to scientific advancement and to act as an incentive for others to engage in the discovery process. Yet in our industry by the time our new product is marketed, the patent life has often been reduced by one-half. The reason is, of course, that newly patented key products must receive marketing approval from the FDA. While no one questions the need for regulations governing the safety and efficacy of new drug products, we believe that the lengthy regulatory approval process unnecessarily burdens technological innovation in pharmaceuticals, since moving a new drug through the discovery, development and regulatory processes takes an average of 7 to 10 years and upwards of $70 million.

In light of the need to foster technological innovation, it makes no sense for one agency of the Federal Government to grant a patent and another to take up to one half of its value away. To rectify this anomoly, legislation is currently pending in the Congress to permit the restoration of patent life lost due to federal regulatory review requirements. It is our hope that the legislation will be enacted this year.

Keeping these definitional and domestic factors in mind, it is nevertheless true that increasing foreign impediments to international trade and investment are a very real problem. As we all know, while tariffs, the traditional barriers to world trade, have been substantially reduced through multilateral negotiation, less easily identifiable, though equally distorting, non-tariff barriers (NTB's) to both trade and investment have flourished. This is of particular concern to the United States because NTB's are often directed toward high technology industries in which we are and have traditionally been most competitive.

While increasing protectionist policies abroad are partly due to the worldwide recession, they are also due in part to structural changes in the international economic system. The developed and newly industrialized nations of the world have recognized that the source of international competitiveness in the 1980's and 1990's will be in the knowledge-based, research intensive industries. In a sense, technology has replaced capital as the scarce international resource. Some might argue that our major trading partners recognized this reality before we did and responded through national economic policies that have targeted and favored high technology products and industries.

The establishment of such national industrial policies in Europe, Japan and the newly industrialized countries (NIC's) has significantly altered the international environment in which U.S. high technology trade and investment take place. In the European Community and Japan, the goal of such policies is to create high technology industries in targeted sectors where they know they can compete effectively internationally, such as semiconductors and pharmaceuticals in Japan and telecommunications and computers in the EEC. For the NIC's, technological development is sought through national development plans which focus upon the acquisition of foreign technologies and the technical training of nationals, with a long-range goal of creating an indigenous technological capability.

Since the developed and developing countries alike consider technological development a domestic national priority, they do not apply the same market rules to this sector as they do to other industries. While some nations, for example, the European countries, believe in the "free market" system and view market competition in such areas as pricing, product quality, marketing, distribution, and after-sale service as desirable and beyond the scope of government involvement, this is not true with the high technology sector. In fact, they openly admit that cooperation and coordination should govern both the relationship between the high technology industries and between the government and industry. This cooperation is most commonly encouraged in ways to reduce the financial risks involved in basic R. & D. and to speed up the commercial application of new technologies.

Specific domestic policies of foreign governments encourage the rapid development of new technologies and their commercial application. Government-sponsored or joint government-private sector research efforts, government subsidization and financing of private R. & D. and of commercial applications of new technology, government-supervised sharing of technology and information on R. & D. successes and failures, and government encouragement of joint private sector R. & D. projects, especially those whose costs would be prohibitive for an individual company, are becoming the norm especially within the European countries.

In the manufacturing and marketing of high technology goods, government policies are even more directly supportive of domestic industries. Buy-national government procurement policies, subsidies, exclusive access to government research facilities for domestic firms, incentives and subsidies to encourage investment in production for import substitution purposes, phasing down of "sunset" industries and strengthening the flow of capital to "sunrise" sectors, and government identification of foreign technologies capable of local exploitation are evolving rapidly as more and more countries develop the capacity to support knowledge-intensive industries.

Once developed, domestic high technology industries are assisted in entering international markets by government subsidies, below market export financing packages or other incentives.

Policies directed toward foreign high technology businesses, however, even more clearly reflect the desire to build national domestic high technology industries. These policies have two primary objectives: to acquire foreign technologies and to guarantee that the domestic industries will be competitive both nationally and internationally. Most are unquestionably trade-distorting, and most are more prevalent in the developing and newly industrialized countries where indigenous R. & D. is still very difficult.

For example, in most of the NIC's and LDC's patent protection is absent or notoriously weak, especially in the pharmaceuticals industry; technology transfers are closely monitored through central government authorities; compulsory licensing statutes do not offer royalties sufficient to recover R. & D. costs; local R. & D. facilities must be established as conditions of direct investment; and local procurement and content requirements induce the technological upgrading of supplier industries and force the sharing of technology. Furthermore, approval to transfer technology frequently involves a commitment to export from the last country, thus futher limiting vital export markets.

Let me turn now to the manner in which such foreign barriers to trade and investment have affected a high technology company such as Pfizer. At the outset, I must note that in the majority of developed countries at least, our experience has been that we receive treatment equal, by and large, with that given to national companies. Although we have not been totally happy with some specific situations in each and every country, overall we have been treated quite equitably, and several barriers that formerly existed no longer exist.

Although our experience in developed countries has been generally good, there are three points I would like to make: (1) It is in the developing rather than the developed world where we find most of the important burdens and restrictions on our business; (2) Limitations on investment and equity ownership often impede us more than the normal trade barriers, whether hidden or overt; and (3) Patent protection or the lack thereof may well be the single most important factor in determining whether a research-based company such as Pfizer can compete effectively.

In view of the fact that performance requirements and other restrictions on U.S. trade and investment are common to most industries and have been broadly debated, let me focus my remarks on the patent issue which is somewhat unique to certain industries of the high technology sector.

The pharmaceutical industry is perhaps more dependent on patents that any other industry. A major reason for this is that once a chemical molecule has been discovered and identified, it is often relatively simple for any sophisticated chemist to make that molecule. For this reason, patent protection, and specifically protection covering the molecule or compound itself, is absolutely critical if research costs are to be recovered. Research-based pharmaceutical companies can not compete with generic companies simply on the basis of production costs. They must be able to recoup research costs if they are to continue to invest in and expand their high technology research.

The patent situation in most of the developed world is generally satisfactory. In Japan, the patent law has been changed in recent years to provide protection for the chemical compound itself. Previously only the process for making the compound could be protected, and any company was free to sell a compound invented by an American company, so long as the compound was made by a process other than that patented by the inventor. This lack of product protection helped the Japanese build their chemical expertise at the expense of American and European pharmaceutical companies.

In Europe, there have been similar positive developments. In most countries, the life of a patent has been extended to 20 years from the date of filing. Those countries that ratified the European Patent Convention have moved to adopt standards which include some of the best features of the existing national laws of Great Britain, France and Germany. Most importantly, protection for pharmaceutical compounds is included.

Serious problems remain in several European countries, however. Italy, where there was no patent protection at all for pharmaceuticals until 1978, there is a parliamentary struggle over a Bill which could seriously weaken patent rights once again. In the important markets of Spain, Greece and Portugal, there is only process protection, and it has been very difficult to obtain enforcement of even these patents in the courts of those countries. In addition, Greece and Spain are strongly resisting enacting legislation to protect chemical compounds as part of the price for entry into the Common Market. The net result is that serious limitations continue in these countries on the ability of American companies to sell products we have discovered, whether we manufacture them in Europe or export them from the United States.

However, it is in the developing countries where the patent issue is the most serious for the American pharmaceutical trade. In Brazil and Indonesia, for example, no patent protection is available for pharmaceuticals, not even for the processes of manufacture. In countries such as Argentina, Taiwan and Korea, there is a patent law of sorts on the books, but the failure of the judicial system to enforce patent rights makes the laws virtually meaningless. Mexico has so watered down its laws that few pharmaceutical companies even bother to file patent applications there.

Moreover, in India and several Latin American countries, the product can be produced locally after a relatively short period of time after the patent is granted or has expired. Very often this occurs before safety and efficacy testing has been completed. Local companies, which have not spent a single cent for research and development are then able to manufacture or even import the American invention once the safety and efficacy testing is completed and the compound becomes a viable product. In India, local companies often obtain the right to manufacture such products to the exclusion of the inventor.

A related issue is one which has not been widely recognized as an important barrier to free trade. At the October 1981 meeting in Nairobi of the World Industrial Property Organization (WIPO), an amendment to the Paris Convention, which sets standards for industrial property legislation for most countries of the world, was approved by all nations except the United States. This would permit developing countries (1) to grant an exclusive compulsory license after only thirty months of nonworking by the patent holder, and (2) to cancel a patent after only 5 years of nonworking. As stated previously, since 5 years is not enough time to commence commercial production, such legislation would amount to confiscation of the inventor's rights.

Any circumstances that preclude the patent holder from working its own patent are untenable. Because of economies of scale, patent holders often cannot afford to work a patent, i.e. produce the basic chemical substance, in more than one or a few countries. Certainly there is no justification for denying the patent holder adequate time to make a decision whether to produce in a country or not before granting someone else an exclusive right or declaring the patent to be forfeited.

The potential result of such legislation could be that a producer in a developing country would be free to export to many markets of the world where the patent laws are weak. Meanwhile, the patent holder might not be able to compete because of its research and development expenses and higher costs generally, or because export incentives granted by the developing country to a national company provide an unfair advantage.

There are even some developed countries where the patent laws are a serious barrier to the research-based pharmaceutical industry. In Canada, for example, compulsory licenses can be granted, and the universal practice has been to grant the patent holder a royalty of only 4 percent. Since the compulsory licensee has spent nothing on research and usually waits until the inventor has developed a market for the product, his marketing expenses are also minimal. He is thus able to undercut the inventor and still make a substantial profit. Consequently, the 4 percent royalty on the compulsory licensee's sales is entirely inadequate to compensate the patent holder for its research and development expenses and lost sales.

We are also troubled by the fact that studies are currently underway in Australia and New Zealand to determine if the existing strong patent laws should be weakened for the benefit of local industry. If a nation looks at the patent system in an extremely narrow and protectionist way, it may well conclude that a weak patent system is in its internal short-term interest. This is because major pharmaceutical inventions are made in only a handful of the developed countries. However, unless all or at least most countries of the world join in a strong patent system, consumers in only a few nations will have to bear the cost of providing funds for further research, or the incentive for research and development in the pharmaceutical field will disappear entirely.

Having enumerated many of the foreign governmental practices that impede international trade and investment in technologically advanced industries, and having outlined some of the problems unique to the pharmaceutical industry, I wish to turn now to some of the proposed remedies. Obviously, the key question facing U.S. policymakers today is how to deal with the new economic realities in the world marketplace and the growing barriers to U.S. trade and investment resulting from increased protectionism abroad. The basic task seems twofold.

First, we must find a way to balance the legitimate rights of foreign sovereign governments to set national priorities and to implement polices to stimulate domestic and technological development with the legitimate right of U.S. firms to be treated fairly and equitably in foreign markets.

Second, it is incumbent upon the United States to seek the elimination of unreasonable and distorting barriers to trade and investment in a way that strengthens and builds upon existing international rules and treaties governing trade, rather than taking measures that could bring the entire system down. The question before this subcommittee is whether the High Technology Trade Act or similar legislation is necessary to achieve these objectives. We think not.

Over the past several months, we have followed the reciprocity debate quite closely and reviewed many of the pieces of legislation falling within that general category. As a company with a significant presence overseas, we are concerned about any legislation that attempts to establish a U.S. "treatment standard" of market access or right of establishment. Few, if any, foreign countries could be reasonably expected to meet such a standard, no matter how laudable or desirable an objective this may be.

We are equally concerned about definitions of reciprocity or market access which ignore the principles of comparative advantage and which imply that bilateral assessments are valid means to judge the performance of our major trading partners. This runs counter to the reality that the United States is operating and competing in a global market which necessitates a global assessment of our international competitiveness. A bilateral or sectoral imbalance does not necessarily mean there is a problem or a cause for U.S. retaliation. In fact, should the United States pursue a course of action solely on a bilateral or sectoral basis, it would in many instances violate U.S. obligations under the General Agreement on Tariffs and Trade (GATT) and invite foreign retaliation against us.

In addition to these concerns, we believe that legislation focusing exclusively on the problems of high technology industries would be ill-advised at this time. At the outset I pointed out the difficulties in defining what constitutes a high technology industry or product. To focus too narrowly on one class products would, in essence, amount to a sectoral approach to those problems with all the pitfalls cited above. In addition, while we can point to this or that burdensome performance requirement or investment restriction, we have yet to develop sound criteria to judge which foreign governmental policies are legitimate rights of sovereignty and which are truly capricious or trade-distorting and thus should be eliminated.

Finally, the very essence of technology is that it is always in a state of flux. Thus any efforts to remedy the problems confronting us today must proceed in a framework flexible enough to deal with a whole set of problems in the future. In sum we believe that greater study of the high technology problem is necessary before proceeding with any legislative solution. In this regard, we understand that such a study is currently underway in the Administration and that the World Bank has launched a similar undertaking.

What, then, are Pfizer's recommendations to this Subcommittee?

First, the United States should establish patent protection as the top priority of any high technology policy, and it should pursue this objective in every available forum. A place to begin is at discussions being held in October on the Paris Convention on Industrial Property, the basic legal instrument governing international relations in the fields of patents, trademarks, designs, indications of source, appelations of origin, and protection against unfair competition. At the present time, the United States is the only country that opposes wholesale changes in the Convention.

Second, we must develop the political will to use the trade and investment tools that we already have at our disposal to address policies that we determine are trade-distorting. It is my belief that the United States, through existing multilateral obligations and trade laws, has the tools to deal with many of our high technology trade problems. Additional legislation is needed only to round out these tools, for example, extension of section 301 of the Trade Act of 1974 to cover services and investment, renewal of section 124 to grant the President residual tariff negotiating authority.

Third, in planning for the future, actions directed toward the policies of foreign governments are not enough to ensure our competitiveness. We must also take a serious look at U.S. domestic policies that impede technological innovation at home. In this regard, we urge the Congress to: (1) Enact the Patent Term Restoration Act of 1982; (2) Make permanent the moratorium on Section 861.8 regulations which require the allocation of a portion of R. & D. expenditures abroad; (3) Make permanent the recently enacted credits for increases in R. & D., and (4) Initiate a reevaluation of the impact of U.S. regulatory, antitrust and tax policies on U.S. international competitiveness.

I wish to thank the Subcommittee for allowing me to present our views on this important trade subject.

Chairman GIBBONS. Our next witness is Mr. Sporck.

STATEMENT OF CHARLES E. SPORCK, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL SEMICONDUCTOR CORP., ON BEHALF OF THE SEMICONDUCTOR INDUSTRY ASSOCIATION

Mr. Sporck. Mr. Chairman, my name is Charles Sporck, president of National Semiconductor Corp. My testimony is in behalf of the Semiconductor Industry Association.

Mr. Chairman, I have come here today to testify that the legislation before you today is of extraordinary importance to this country. It is vital to many industries. If I leave you convinced of one thing today, I hope it will be that trade legislation must be enacted this year which will result in the opening of world markets to our exports and which will address more effectively industrial policies which disrupt these markets.

The semiconductor industry, and the high technology industries as a group, are probably the most severely affected by the new forms of market barriers that require new international negotiations. What is disturbing about this challenge is that ultimately we won't be able to compete successfully unless markets are opened and the effects of foreign industrial policies are dealt with.

Growing government intervention abroad undermines the balance of our past trade agreements. That erosion must be halted. Where U.S. companies and workers have high export potential, legislation reported by this committee must direct U.S. negotiating priorities to attack the market barriers that frustrate our ability to compete. This is especially true where a protected home market serves as a base from which foreign industries offer extremely aggressive competition in the United States and in Third Country markets.

This does not mean that the United States should set itself as the sole judge of prior agreements, unilaterally restructuring commitments. We must build upon the GATT framework, not tear it down. But we must now make an independent assessment of our national commercial interests, set priorities, seek new negotiations, and utilize existing rights aggressively, if the GATT framework is to be respected and is to endure.

The High Technology Trade Act of 1982, H.R. 6433 and H.R. 6436, should move us in the right direction. What is needed are procedures provided by statute to identify foreign market barriers, to establish national priorities, and to find solutions to obtain additional market access and national treatment. We also need a political mandate and legal authority for negotiations.

Mr. Chairman, I would urge in the strongest possible terms that the High Technology Trade Act of 1982, before your committee now, be promptly reported out favorably.

We are highly competitive, but we need world markets in order to maintain that position. We are increasingly being denied access to those markets. Governments of developed and advanced developing countries alike have recognized the importance of their high technology industries, and are increasingly protecting and promoting them.

We suffer the consequences of foreign industrial policies which distort international trade and investment. This is true not only in terms of market access abroad, foreign industrial programs also provide foreign industries with an unfair advantage in gaining market share in a competitive environment. It prevents our industries from making the investments needed to compete successfully in the future in major project areas.

The fact is that our largest potential foreign market remains substantially closed to us. A Joint Economic Committee study published this February concluded that the Japanese market for semiconductors has an oligopolistic structure and does not function as an open market. The Government of Japan tolerates and even encourages the formation of cartels that result in these oligopolistic policies. Japanese Public Law 84 of 1978 provides the statutory basis for this system.

The United States-Japan trade balance for semiconductors illustrates just how successful, and how disastrous, these policies have been, as demonstrated in the first chart on the left.

[A chart follows:]

Mr. **Sporck**. Imports from Japan in 1981 climbed to nearly $400 million, while exports to Japan remained flat. This represents a complete reversal of our trade position with Japan. This does not represent a lack of our competitiveness. Im Europe, the United States, and in other markets, we are highly successful. In Japan, industry and government are content to have a buy-Japan policy. This is not a cultural question. It is protectionism.

If allowed to compete on fair and equal terms with our foreign counterparts, there can be no doubt of our industry's ability to maintain our long-term leadership position. We are cost competitive, and we are world leaders in technological innovation. But government support and easy access to low-cost capital allow Japanese producers to sell key commodity products in our market at very low prices, sometimes below the cost of production. The consequences in terms of price and market share are disastrous.

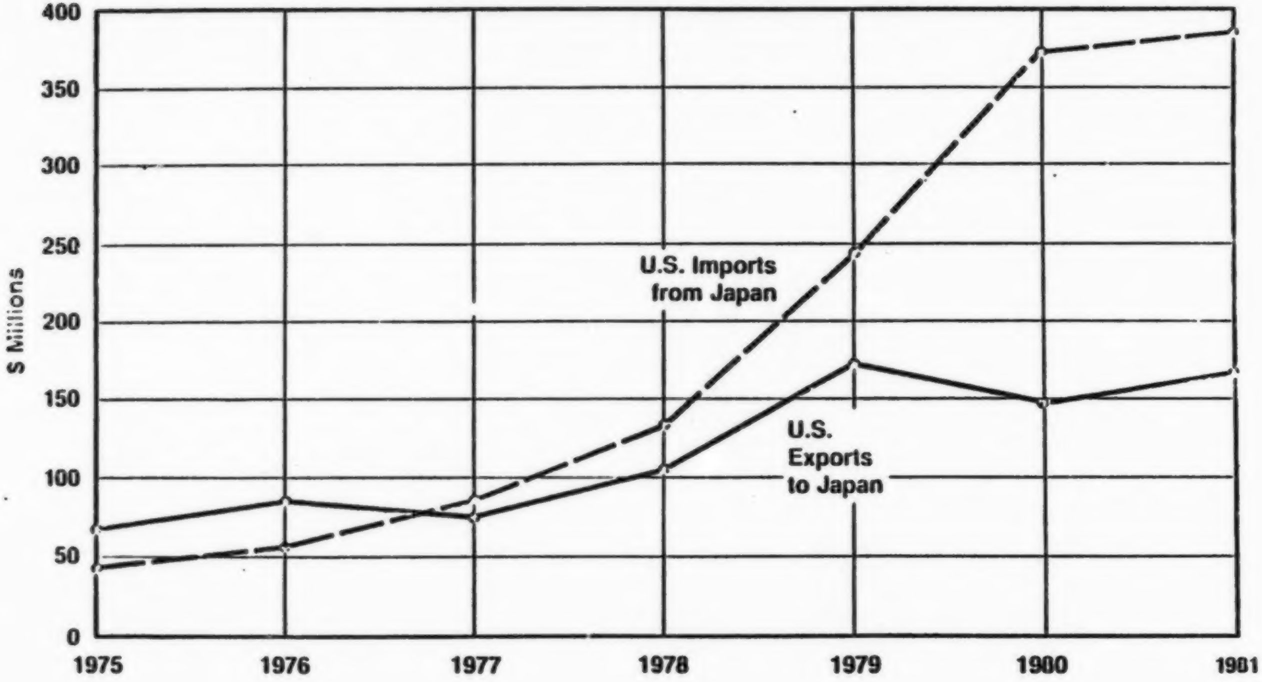
Semiconductor prices until very recently have followed a traditional learning curve pattern, with price declining steadily over time, as output expands and efficiency is achieved through experience. Our price per bit of memory has declined at a classic rate of about 30 percent for each doubling of production volume, tracing a very steady, healthy downward slope. A more dramatic way of putting it is that between 1973 and 1981 we succeeded in reducing our cost per RAM [random access memory] bit by about 97 percent.

When the Japanese entered the 64K RAM market in October of 1980, our price curve dropped from a 30-percent to an 81-percent decline rate. During 1981, the price of the 64K RAM fell from $25 or $30 per device to about $6. The result of this dislocation in learning curve pricing will cost the industry billions of dollars in revenue, profits which are vitally needed to finance growth. That is demonstrated in the second chart.

[A chart follows:]

CHART A

U.S./JAPAN TRADE BALANCE
(Total Semiconductors)



Data: U.S. Dept. of Commerce

March 1982

Best Available Copy

Mr. Sporck. Competitiveness and flexibility can only take us so far. The continued viability of the U.S. semiconductor industry hinges on the openness of international markets to our companies and their products. Foreign markets account for half of the total value of semiconductors consumed worldwide. We need the volume represented by those markets in order to generate the funds we need for investment, research and development.

The semiconductor industry, like all high technology industries, requires enormous investments in capital equipment and research and development. With world demand for semiconductors growing at an annual rate of 25 percent, we need capital to expand production facilities. More importantly, as our production technology changes, equipment becomes obsolete at a rapid rate, and our production process is becoming increasingly capital intensive. Integrated circuit producers spend an average of 28 percent of sales on investment in equipment and research and development, compared to 7 precent for U.S. industry as a whole.

Our product designs change rapidly and our products have short lives. Since 1960, the basic process technology has undergone 19 separate design changes. We must invest a constant and substantial stream of capital in research and development of next-generation products. We estimate that U.S. producers will have to invest over $100 million per firm on research and development and production facilities to produce the 64K RAM, and $105 to $200 million per firm for the 256K RAM.

Where there is an enormous need for capital for both growth in expenditure on equipment and on R. & D., the critical determinant in the competition between Japan and the United States is the ability of each economy to provide the rapidly increasing amounts that they require.

The most significant advantage of Japanese firms is the stable availability of capital. As a result of extensive foreign government intervention and national policies in the high technology area, Japanese and other foreign firms have easy access to low-cost capital and are taking advantage of it.

In addition to Government subsidization and financing of research and development, foreign firms generally operate under a debt-equity ratio much higher than U.S. firms. Japanese firms have debt-equity ratios of 150 to 400 percent, compared to ratios of 5 to 25 percent for U.S. firms. This is a result of close cooperation between the government and lending banks, the industrial groupings around large banks, and the fact that market rationalization and oligopolization make Japanese firms a secure investment risk. Stable access to capital allows Japanese firms to utilize longer planning horizons, as they are not as dependent on short-term earnings.

Japanese firms also enjoy access to cheaper capital. That puts them in a superior competitive position due to the increasing contribution of capital equipment to cost. While the cost of capital and the rate of return are equal for U.S. firms, the rate of return is less than the cost of capital in foreign markets. The American company's cost of capital is on average 17.5 percent, and their rate of return marginally covers this high rate while the cost of capital to Japanese firms is approximately 9.3 percent.

The long run implications of the structural disadvantages under which the American semiconductor companies are operating are becoming clear. In the long term, this structural advantage, lower cost of capital and current profit indifference, will work to the distinct disadvantage of American firms, jeopardizing their ability to earn sufficient return to cover capital cost and therefore their ability to compete.

If we had full access abroad, we would not only share in the most rapidly growing markets, but we would limit the ability of foreign producers to depress prices artificially during recessions in order to gain market share in our home markets.

In order to achieve progress in this area, the United States must adopt a comprehensive approach, focused on the whole complex of trade and investment problems peculiar to high technology. The High Technology Trade Act provides that approach.

Its goal is to obtain maximum openness of international markets to high technology trade and investment through negotiated agreements directed at eliminating existing barriers. It has as its objective that U.S. companies exporting to or investing in foreign countries will receive national treatment.

The bill would also establish a monitoring system to measure the degree of openness of foreign markets, and would strengthen the international trading system through more rigorous use of existing procedures under U.S. laws and trade agreements.

The U.S. semiconductor industry has proven, with each generation of new products, its ability to innovate in both process and product design. We will continue to take whatever measures are necessary to maintain that innovative capability. The U.S. semiconductor industry is dedicated to the high road of a free and fair trade policy. We challenge our trading partners around the world to adopt that same policy.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, sir. Thank you, Mr. Sporck.

[The prepared statement follows:]

STATEMENT OF CHARLES E. SPORCK ON BEHALF OF THE SEMICONDUCTOR INDUSTRY ASSOCIATION

Mr. Chairman, I am here today to address the problems that H.R. 6433, and H.R. 6436, the High Technology Trade Act of 1982, are designed to deal with. The semiconductor industry—and the high technology industries as a group—are the best examples of industries affected by the panoply of new trade and investment barriers the bill addresses. It is vitally important that you enact trade legislation this year which will result in a major opening of world markets to our products, and will eliminate distortions in our home market due to unfair trade practices.

Having recognized the critical value of their high technology industries, foreign governments are increasingly adopting narrow nationalistic policies and employing tariff and nontariff barriers and other trade-distorting measures in order to insulate their industries from foreign competition and expand their world market shares. With the United States as the most prominent exception, governments around the world are supporting their semiconductor and microelectronics-based industries as a national priority. They have adopted national policies and programs designed to provide a special economic environment beyond the benefits free market forces would generate. They seek to give their industries a competitive edge in the world market.

What is disturbing about this challenge is not the competition itself. This industry thrives on competition. What is disturbing is that ultimately we won't be able to compete successfully unless the gap is narrowed between the deliberately supportive, closed economic environment provided abroad and the environment existing in the United States.

This does not mean that the United States should set itself as the sole judge of the balance or prior agreements, unilaterally restructuring commitments, or that we should make excessive use of the renegotiation provisions of the GATT. We must build upon the GATT framework; not tear it down. But we can make an independent assessment of our national commercial interests. We can set priorities, seek new negotiations, and utilize existing rights aggressively.

In order to achieve an effective solution, the United States must adopt a comprehensive approach, focused on the whole complex of trade and investment problems peculiar to high technology and directed at ensuring open international markets for our products and investments. The United States has traditionally been reluctant to engage in sectoral trade negotiations out of a concern that this approach would favor one sector of the economy over another; a decision that the market—not the government should make.

There are strong reasons, however, why singling out high technology for a special focus should not meet with "sectoral legislation" objections—reasons why a specialized approach offers the only hope of a satisfactory solution.

First, high technology is not just another significant product sector. Defined by input rather than product, it parameters cut across other product sectors and will shift with time to encompass any product highly dependent on extensive research and development and constant innovativeness. These are the products generally in the forefront in determining any nation's industrial strength and future competitiveness. Singling out high technology trade problems for a special focus is quite different from sectoral negotiations on a purely product-specific basis.

Secondly, our motivations are not typical of industry sectors seeking government assistance. We are not asking for protectionist legislation. The United States high technology industries are highly competitive, and are asking only that the government uphold our right to compete in an open international system. Our ultimate objective is the dismantling of the market barriers that prevent us from exploiting our competitive advantage.

Moreover, unlike most sectoral trade problems, we are not dealing here with the familiar situation of foreign government protection of infant or ailing industries in response to domestic economic and political pressures. Our trading partners are protecting and promoting their highly competitive high technology industries with the intention of taking advantage of the open U.S. market by expanding exports from a sector insulated from foreign competition.

Thirdly, high technology industries merit special treatment because of their unique and substantial current benefit to society, and their enormous potential benefit. The importance of their products to every nation's industrial base, national defense and economic health, to international technological progress, and to the free international flow of information, is rivaled by no other group of industries. By definition, these are the industries investing most heavily in research and development and are the most progressive and highly innovative. These are the products and industries on the frontier of technological progress in a range of areas and product sectors.

Finally, high technology industries are particularly vulnerable to, and are certainly the most dramatic victims of, the new forms of market barriers that are threatening to undermine the progress we have achieved to date in forming an open international trading system.

Mechanisms to cope with problems of international trade and investment under existing U.S. law and international agreements do not provide an acceptable framework. This is a new problem. We need an affirmative legislative response; a response that is tailored to the problem—the distorting effects of foreign industrial policies and other foreign government policies and practices.

The barriers which limit our ability to export to and invest in foreign markets, and which allow foreign industries to win large market shares in the United States are diverse and pervasive. High technology products are by definition new and constantly changing. The crippling effects of current foreign government policies will be felt in the future, and are neither fully apparent nor quantifiable in the present.

It is essential that procedures be provided by statute to analyze foreign industrial policies and their effects, to identify foreign market barriers, to establish national priorities, and to find solutions to obtain additional market access and national treatment.

The High Technology Trade Act of 1982—H.R. 6433 and H.R. 6436—as introduced on May 20 by Chairman Gibbons, Representative Stark and others, contains the crucial elements of a successful solution, and we urge that it be enacted in its current form. It provides a political mandate and legal authority for negotiations to obtain: maximum openness of international markets to high technology trade and investment; the elimination or reduction of trade-distorting foreign government intervention; an end to public and private discriminatory procurement policies; the reduction or elimination of tariff and other nontariff barriers to high technology trade and investment; and foreign government commitments to provide national treatment.

It authorizes the President to modify duty or duty-free treatment, and to use existing procedures to change U.S. law in order to carry out negotiated agreements.

It establishes a procedure whereby the President will review annually whether key countries are acting to accord our firms national treatment, and ensures that consultations will ensue and other responsive actions will be taken, with regard to any country that is recalcitrant.

The bill provides for an annual review and analysis of trade and investment-distorting foreign industrial policies and other foreign government measures such as subsidization, toleration of anticompetitive practices and other measures which impair access to foreign markets. In order to achieve maximum openness of international trade and investment in this area, such an ongoing review of foreign measures—not triggered by individual petitions—is critical.

Equally vital, the bill will establish a mechanism to identify and measure the openness of foreign markets. This mechanism will analyze trade and investment flows, competitive conditions in foreign markets, and the extent of foreign government intervention in those markets.

Finally, H.R. 6433 and H.R. 6436 enhance the President's ability to respond to foreign government practices which affect investment, by amending Section 301 of the Trade Act of 1974.

The High Technology Trade Act contains the requisite components of an internationally responsible and effective United States response to the new market barriers confronting us. It provides the framework for the focus of government attention and the convergence of government efforts necessary to open world markets to international high technology trade and investment.

This framework is, moreover, consistent with the international obligations of the United States, and should raise none of the questions generated by proposed "reciprocity" legislation. The High Technology Trade Act calls for no bilateral balancing of market opportunities. Its focus is on the obtaining of national treatment abroad for U.S. firms. It provides no new retaliatory authority, relying instead on more vigorous use of existing rights under U.S. law and international agreements.

Our industry is highly competitive. If allowed to compete on fair and equal terms with our foreign counterparts, there can be no doubt of our ability to maintain the leadership position we have occupied since our industry's inception. We are cost-competitive, and we are competitive in technological innovation.

Semiconductor prices until very recently have followed a traditional learning curve pattern, with prices declining steadily over time, as output expands and efficiency is achieved through experience. In the earliest developmental and production states of a device, yield ratios are typically low and unit prices high. Prices fall rapidly in the early years of commercial production, and then decline more slowly as the market matures, unit costs fall less rapidly, and competition drives prices down. Our price per bit for memories has declined at a classic rate of about 30 percent for each doubling of production volume, tracing a very steady, health, 70-percent downward slope. A more dramatic way of putting it is that between 1973 and 1981, we succeeded in reducing our cost per RAM bit by about 97 percent. The rate of inflation in the U.S. economy dramatizes the counter-inflationary trend in semiconductor prices. Even in the worst of times, our performance has contributed to fighting inflation.

Our productivity record, as measured by the value added per employee, is spectacular. While productivity of the U.S. economy as a whole stagnated during the late seventies, productivity in the semiconductor industry increased at an annual rate of over 22 percent.

The technological competitiveness of our industry—our rate of innovation—is revealed by the rate at which we have introduced new products. Since 1971 U.S. manufacturers have produced four successive generations of computer memory devices. The U.S. industry leaders have succeeded in quadrupling memory capacity about every 2 or 2½ years.

Our competitiveness is one pillar supporting our demand for open and fair international trade and investment. The other pillar is our need for access to global markets.

The continued viability of the United States semiconductor industry hinges on the openness of international markets to our companies and their products. The focus of our production and marketing is of necessity on the global market, and maximum access to that market is absolutely crucial. We need open international markets because of the size and distribution of the world market, because of the nature of our production process, and most importantly, because of the available economies of scale and our need for investment capital.

Foreign markets account for half the total value of semiconductors consumed worldwide. This fact alone underscores the importance of these markets for American firms. Of total Worldwide consumption of $15 billion in 1981, more than half—$9 billion—represents foreign markets. We need the volume represented by those markets in order to stay on the learning curve and capture cost efficiencies. There is a direct relationship between production volume and average price for successive generations of random access memories.

It is our process innovation and product development that established us as world leaders in this area and has allowed us to maintain that position. To stay on the forefront requires enormous research and development and investment expenditures. With world demand for semiconductors growing at an annual rate of 25 percent, we need capital to expand production facilities. More importantly, our production technology changes and equipment becomes obsolete at a rapid rate. Our average age of installed equipment declined 25 percent between 1975 and 1979 to 4.4 years. Our production process is becoming increasingly capital-intensive. Gross plant and equipment expenditures per employee were about $11,000 in 1976, and rose to $15,000 in 1979, despite significant increases in industry employment. The Joint Economic Committee study published in February reported that in an effort to prepare for 64K RAM production, the top ten Japanese producers spent $775 million in 1980 on plant and equipment—17 or 18 percent of sales, while the top 10 U.S. producers spent $1.2 billion—more than 20 percent of sales. Integrated circuit producers spend an average of 28 percent of receipts on investment in equipment, research and development, compared to 7 percent for U.S. industry as a whole.

To remain competitive in an industry where sales are concentrated in the most advanced products means that we must invest a constant and substantial stream of capital in research and development of next generation products. If we do not, our leadership position will be short-lived. Compared to an average investment by U.S. industry as a whole of 3 percent of sales, U.S. semiconductor producers currently invest an average of 9 percent of their revenues in research and development. We estimate that U.S. producers will have to invest over $100 million per firm on research and development and production facilities to produce the 64K RAM, and $150 to $200 million per firm for the 256K RAM.

Other governments have obviously understood the direct relationship between market share and research and development. It is the fundamental proposition on which they have formulated their policies of promoting and funding research and development and protecting their domestic industries. Foreign government efforts have been concentrated in memories—the fastest growing segment of the market. This is the segment which has historically generated technology and production experience and the profits which have benefited a broader range of products.

Where there is an enormous need for capital for both growth in expenditure on equipment and on R&D, the critical determinant in the competition between Japan and the United States is the ability of each economy to provide the rapidly increasing amounts that are required.

The most significant Japanese advantage is the stable availability of capital. As a result of extensive foreign government intervention and national policies in the high technology area, Japanese and other foreign firms have easy access to low-cost capital and are taking advantage of it.

In addition to government subsidization and financing of research and development, foreign firms generally operate under a debt-equity ratio much higher than U.S. firms. Japanese firms have debt-equity ratios of 150 to 400 percent, compared to ratios of 5 to 25 percent for U.S. firms. This is a result of close cooperation between the government and lending banks, the industrial groupings around large banks, and the fact that market rationalization and oligopolization make Japanese firms a secure investment risk. Stable access to capital allows Japanese firms to utilize longer planning horizons, as they are not dependent on short-term earnings.

Japanese firms also enjoy access to cheaper capital. That puts them in a superior competitive position due to the increasing contribution of capital equipment to cost. While the cost of capital and the rate of return are equal for U.S. firms, the rate of return is less than the cost of capital in foreign markets. The American company's cost of capital is on average 17.5 percent, and its rate of return marginally covers this high rate, while the cost of capital to Japanese firms is approximately 9.3 percent.

The long-run implications of the structural disadvantages under which American semiconductor companies are operating are becoming clear. In the long term, this structural advantage—lower cost of capital and current profit indifference—will work to the distinct disadvantage of American firms, jeopardizing their ability to earn sufficient return to cover capital costs, and therefore their ability to compete.

If foreign government policies and practices continue to deny U.S. access to world markets, the result will be a loss of technological superiority over a whole range of products. The Japanese market alone could amount to 35 to 40 percent of world demand. If that market remains substantially closed, our Japanese competitors, backed by government support, will benefit through lower cost due to experience at a much faster rate than our firms, while denying us access to the market we need to match them.

We are highly competitive, but we need world markets in order to remain competitive. The problem is that we are increasingly being denied access to those markets. Foreign governments have recognized the importance of high technology industries to their national economies, their defense, and to their international competitiveness across a broad range of product sectors. They are increasingly promoting those industries through such measures as subsidization, tax incentives, and government-sponsored cooperation in production and research, while protecting them from foreign competition through a variety of tariff and nontariff barriers, investment performance requirements, denial of national treatment, toleration of restrictive business practices, and other trade-distorting measures. The market for integrated circuits and their end use products such as computers, telecommunication equipment, industrial automation equipment and consumer products, are the most dramatic targets of such government policies.

Japan is currently the major source of friction. As far back as the early 1960's, the potential and value of microelectronics was recognized by the Japanese government, and it became one of several "target" industries—an evolution of the "infant industry" philosophy. The focus was on limiting foreign competition through blocking foreign investments, and acquiring foreign technology.

As recently as 1978, the "Buy Japan" philosophy was further strengthened by the enactment of Public Law No. 84—designed to assist industry in the development of products selected by the Japanese government in the categories of electronic devices, electronic computers, and computer software.

As part of this national policy aimed at promoting its high technology industries, attention is currently focused on the semiconductor industry, where the government coordinates a joint government-industry effort to improve the Japanese capacity in the greatest-volume, fastest-growing sector of the market. This effort is specifically geared to overtaking the U.S. lead in that sector, and emphasizes in particular the development and commercial application of state-of-the-art and next generation technologies.

The European Community is developing a program of coordinated research, design and production, focused on microelectronics and aimed at achieving a unified European market and expanding its world market share. Individual European governments have targeted certain key industries like microelectronics, computer equipment, telecommunications, and bioengineering, and have launched what have been described as "some of the grandest industrial-aid programs since World War II." They are providing these industries with very high levels of funding for research and development, are tolerating and even encouraging anticompetitive behavior, are providing tax incentives such as credits for research and high depreciation rates for research facilities, and are restricting foreign exports and investment in their markets by discriminatory procurement policies, performance requirements, and other measures.

Nor is the problem limited to developed countries. The advanced developing countries—particularly Mexico and Brazil—are adopting similar policies. Brazil seeks to achieve the overall objectives of its National Development Plan by increasing its technological capabilities. The Brazilian Government is intervening in the international flow of technology for its national purposes by preventing foreign participation that might represent a competitive threat, while pressuring foreign firms to share advanced technology. These efforts are coordinated with a high level of government intervention aimed at strengthening the Brazilian industry, in the form of funding, tax breaks, technical assistance, dissemination of technological information, and formulation of R. & D. programs. Central to the effort to strengthen the indigenous technological capability of its industry is the Brazilian government's conditioning of foreign investment in industries like computers on the introduction over time of increased levels of Brazilian content.

Foreign industrial policies are implemented not only through raising obstacles to imports. There are also serious consequences in terms of exports to our market. Shortly after the Japanese entered the market for the 16K RAM in mid-1977, the price curve dropped noticeably. Then in October of 1980, when they entered the 64K RAM market, that price curve dropped radically to a 19 percent slope, and price competition forced 16K RAM prices down. During 1981 the price of the 64K RAM fell from $25 to $30 per device to about $6. At those prices, U.S. companies are absorbing losses, and we are seriously questioning our ability to maintain adequate levels of investment. This dislocation of traditional learning curve pricing will cost the industry billions of dollars.

The consequences in terms of market share are equally disturbing. We remain unable to exploit the volume potential of foreign markets. Our largest potential foreign market remains substantially closed to us. A Joint Economic Committee Study published this February concluded that the Japanese market for semiconductors has an oligopolistic structure and does not function as an open market. The Government of Japan tolerates and even encourages the formation of cartels that result in these oligopolistic policies. Japanese Public Law 84 of 1978 provides the statutory basis for this system.

The United States-Japan trade balance for semiconductors illustrates just how great, and how disastrous, these policies have been. Imports from Japan in 1981 climbed to nearly $400 million, while exports to Japan remained flat. This represents a complete reversal of our trade position with Japan. In Europe, the United States, and in other markets, we are highly competitive and highly successful. Japanese industry and government are content to have a Buy-Japan policy at home. This is not a cultural question. It is protectionism. These protectionist policies are preventing us from penetrating their home markets, while providing them the springboard for extensive penetration and disruption of our market.

Remaining passive will not preserve the status quo. The openness of markets is eroded whenever international rules are unclear or do not apply. That is why we are here today, asking that Congress pass trade legislation—not to retaliate against foreign practices, but to set national trade priorities, to examine foreign practices and their impact on our industrial base, and to give the President a badly-needed mandate to find solutions.

The U.S. semiconductor industry will continue to provide world markets with innovative, cost-effective, high-quality products. We will continue to invest in the research and development necessary to maintain our technological leadership. We will continue to invest in new plants and equipment to provide the capacity necessary to meet the growing demand for our products. We are dedicated to being cost competitive with suppliers from around the world and to providing products with quality second to none. The U.S. semiconductor industry has proven, with each generation of new products, its ability to innovate in both process and product design. We will continue to take whatever measures are necessary to maintain that innovative capability. The U.S. semiconductor industry is dedicated to the high road of a free and fair trade policy. We challenge our trading partners to adopt that same policy.

Chairman GIBBONS. Our next witness is Mr. McDonell.

STATEMENT OF HORACE G. McDONELL, JR., PRESIDENT, PERKIN-ELMER CORP.

Mr. McDONELL. Yes. Good afternoon. I am Horace G. McDonell, president of the Perkin-Elmer Corp. of Norwalk, Conn.

I thank you, Mr. Chairman, for this opportunity to testify before your committee.

Perkin-Elmer, with sales of $1 billion, is very much a part of the high-technology sector of U.S. industry, which is the subject of this afternoon's hearing. We are the largest supplier of projection equipment to semiconductor manufacturers throughout the world.

In addition, as suppliers of minicomputers and laboratory and analytical instruments, we are involved with state-of-the-art applications of microprocessors.

Forty-five percent of my company's business is sold outside the United States, and we are therefore staunch supporters of international trade. I have been personally involved in such trade with both Europe and Japan as well as the rest of the world for more than 15 years.

Today, I believe there is a real and present danger that the U.S. semiconductor industry will lose its world leadership and a substantial share of its home market to its Japanese counterpart, possibly in the next few years.

The seriousness of this threat to U.S. economic well-being in general can only be understood when we contemplate the ripple effect of such a loss on the computer industry, the telecommunications industry, and a host of other smaller industries ranging from scientific instruments to television games, which in their composite we call electronics.

All of these industries are built upon the same foundation technology, the modern semiconductor.

That this danger is real and present has been illustrated by the entry of Japanese companies into the U.S. market for semiconductor memories and their capture of more than 70 percent of the 64K RAM market within 18 months of shipping their first product.

It can happen, and there is considerable evidence to the effect that it is happening. We can argue whether the evidence is conclusive or not, but I hope you will agree that the United States cannot afford to let this happen.

The question I wish to address is, what is to be done?

First of all, the Federal Government has to help. There are many reasons behind the emergence of Japan as an economic power to be reckoned with, but threaded through most of them is the active involvement and support of the Japanese Government. Only recently has the United States been awakened to the great cultural differences in business-government relationships in Japan as opposed to the United States, and this difference has worked to the great advantage of Japanese business and to the disadvantage of the U.S. economy.

The United States must get its act together; Government and business must cooperate.

Many of us who have worked actively in United States-Japanese trade over these last 20 years have grown impatient with attempts to define, much less to solve, serious trade problems with diplomatic and legal language according to narrow definitions and in judicial-like proceedings.

There is an $18 billion a year trade imbalance between Japan and the United States. This imbalance is wiping out major segments of the United States economy and it is getting worse each year. It has to be brought back to within reasonable boundaries and kept there, otherwise such trade simply cannot continue. Trade is, after all, business. Trade problems must be addressed like business problems, by establishing goals and then managing toward those goals. Instead of squabbling about GATT violations, subsidies, dumping and nontariff barriers, we should be negotiating with the Japanese as to acceptable goals in the volume and balance of our trade together. We should be working to increase, not to decrease, the volume of trade, but we must find a more effective means of assuring a reasonable balance of trade.

Management of United States-Japanese trade is not working. It is generating unacceptable results.

We are failing because we are trying to manage that trade through the application of a uniform or "fair" set of rules, but we are finding that the rules do not work the same way in two societies that are inherently different. You have heard all of these differences before. Usually in the context of one or the other side's cheating on the rules.

Let us try to remove the accusatory overtones on the subject and accept the fact that the societies and their economies work differently.

After all, this is America, home of pragmatism and its most direct progeny—management science. Consider these observations, and ask yourself "Are the same set of rules going to work equally in both places?"

Japanese industry and its workers enter "lifetime commitments" at the time of employment, while U.S. workers and companies view "a job" as a much more expedient relationship.

Japanese industry runs mostly on debt capital, while U.S. companies run mostly on equity.

Interest costs in the United States are three times those in Japan.

Financial institutions—on which U.S. industry is dependent for its capital—consider that U.S. companies that do not earn 5 percent of sales after tax are underachievers. In Japan, 1 to 2 percent is considered the acceptable norm.

Entrepreneurial drive is a major thrust behind U.S. industrial expansion, particularly the high-technology component, while thrift and planned capital mobility have characterized Japanese success.

U.S. managers are held accountable on a "quarter by quarter" basis, while Japanese managerial horizons are over a period of years.

Engineering and science are popular career choices for Japanese students, while law and humanities are favored by more in the United States

Japanese unions "cooperate" with corporate management, while U.S. unions and management do not.

The U.S. consumer "likes" foreign goods, like Mercedes cars and Sony TV's, while the Japanese consumer thinks it is unpatriotic to buy a foreign rather than a Japanese product.

Is it surprising that attempts to apply the same rules in the face of these and many other cultural differences have led to defensive rationalization and squabbling? The quasi-judicial environment within which such squabbles are resolved has so slowed the pace of adjudication that U.S. industrial participants have lost faith in the system completely.

Rather than continuing our attempts to "tweak the rules," or change the culture of a sovereign foreign nation, I propose a more pragmatic approach. A far more tractable system for the management of bilateral trade would be to manage the results. Every businessman does the same. In the pinch, the United States and Japanese Governments were forced to treat the automobile problem that way on an ad hoc basis.

I am suggesting that we establish with the Japanese an expansionist trade program, with explicit goals for the volume and balance of trade. The goals should be set so as to require the commitment of both governments to cooperate with their own industries on the import, as well as the export, components of that trade. We should use the expansionist character of the trading relationship to narrow the deficit the United States is now running. After all, the Japanese will be far more effective at opening that market than we will.

I think we must give some attention to industry sector goals, and performance, but the sectors cannot be independent of overall trade performance any more than those sectors are independent of their home economy. Any effective management system has to have considerable give and take.

I have avoided up to now any mention of a word that has taken on incendiary connotations. In Japanese eyes, the word "reciprocity" has come to mean a return of America to the protectionist trade policies of the 1930's. For that reason, I propose that we eschew its further use. What we are seeking is not protectionism, but a balanced, fair, and expansionist trade relationship with Japan. Nevertheless, I am convinced that the alternative is no trade with Japan.

We cannot go on letting our industries be overrun one at a time. As with Japanese agriculture, the social cost is simply too high.

We need legislation that will empower our President to limit access to the U.S. market on the part of trading partners with whom we cannot establish equitable trading relationships. Such powers ought to be granted by Congress in the context of free trade and expansionist goals. We want the Japanese to feel, as we want our other trading partners to feel, that we wish to continue to do business together. However, it must also be understood that we cannot continue the way we are going. If our economies are to expand together in the future, we had better start managing for results.

In concluding my remarks today, I would like to urge your favorable consideration of the High Technology Trade Act of 1982. I do so on behalf of Perkin-Elmer and the Scientific Apparatus Makers Association, or SAMA, as it is called. This trade association has 200 member-companies who are suppliers of high technology scientific and industrial instrumentation.

I would like to thank you for this opportunity to speak on an issue of crucial importance to the United States.

Chairman GIBBONS. Thank you, sir.

Mr. Thomas?

STATEMENT OF ROWLAND H. THOMAS, JR., VICE PRESIDENT, AMERICAS/FAR EAST, DATA GENERAL CORP., ON BEHALF OF THE AMERICAN ELECTRONICS ASSOCIATION

Mr. THOMAS. Thank you, Mr. Chairman.

My name is Rowland Thomas. I am vice president, Americas/Far East of Data General Corp., based in Westborough, Mass. Data

General is one of the world's leading suppliers of small computers and related equipment and services.

I am appearing before you today on behalf of the American Electronics Association. AEA is a trade association of more than 1,900 electronics companies in 43 States, mostly small businesses employing fewer than 200 people.

First, Mr. Chairman, I want to express AEA's appreciation for the leadership you and the members of this subcommittee have shown in focusing Congress attention on the problems U.S. firms face abroad. We welcome this opportunity to testify in support of assisting our U.S. Trade Representative in reducing barriers abroad to U.S. exports of products, services, and to foreign investment.

AEA has analyzed carefully the bills introduced by members of this subcommittee and Congress. We believe now is the time for the United States to do all it can to resist protectionism here and overseas by working to shore up the GATT system of international rules to cover foreign investment and services. By initiating and passing appropriate legislation, Congress can provide our negotiators the statutory backup and policy guidance they need to be successful in this critical endeavor.

We think it is important that any legislation in this area: Be consistent with the letter and spirit of the GATT system and the U.S. obligations thereunder; mandate and authorize the President to negotiate bilateral and multilateral treaties covering foreign direct investment and trade in services; expand the authority of the President under section 301 of the Trade Act of 1974 to respond to foreign barriers to U.S. foreign direct investment; call on the Trade Representative and the Secretary of Commerce to inventory foreign nontariff barriers to U.S. products, services, and investments; require reports to Congress on the steps planned or taken to have these barriers reduced or eliminated; and provide special attention for the high-technology sector.

Several bills before this subcommittee meet some of these objectives and principles. AEA is pleased that Messrs. Shannon, Gibbons, Guarini, and Matsui have introduced H.R. 6433, which addresses all of them. We urge this subcommittee to report out a bill whose provisions contain these elements. It will thereby assist our Trade Representative in reducing barriers abroad to U.S. products, services, and foreign investment, and will alleviate the growing pressure in Congress to enact new protectionist and other GATT-inconsistent trade laws.

Let me elaborate on these objectives:

If we examine our trade performance over the last two decades, it is clear that our R. & D.-intensive, high-technology industries are performing extremely well in holding up the U.S. balance of trade.

The United States has a distinct comparative advantage in high technology manufactured products and related services. Many countries, industrialized as well as developing, want to have their own high technology industries because of the benefits the United States now reaps from them: new and better jobs, increased productivity, greater income, and the better standard of living which results. Consequently, many governments have targeted this sector for intervention via industrial policies, combining protection, and active support.

We are pleased that Ambassador Brock intends to place this sector on the agenda for the GATT ministerial talks. We believe the provisions of H.R. 6433, the High Technology Trade Act of 1982, provides a comprehensive basis and approach for negotiations in this forum, or in other bilateral or multilateral talks with our principal trading partners.

We are pleased to see this proposed legislation deals with the difficult area of foreign direct investment.

For the last several decades, the United States has led the way in getting other countries to reduce their tariffs on U.S. product exports. As these tariff barriers have come down, however, new, more subtle nontariff barriers have appeared.

Unfortunately, some of the most serious of the nontariff barriers are ones which are not covered by any multilateral rules, namely restrictions on foreign direct investment.

In our industry, to sell computer systems or other high technology products to customers overseas, we must commit to provide service and maintenance for the products we sell. We must be able to establish local subsidiaries for these purposes. The ability to invest in manufacturing, sales and service operations is a primary vehicle of trade today. It is for this reason that we view investment and trade as two sides to the same coin.

For young companies such as ours, the most onerous of these investment barriers are restrictions on our ability to establish local, majority owned, sales and service subsidiaries that we can manage properly. In an increasing number of countries, we cannot now establish such subsidiaries unless we are willing to surrender majority ownership to a local partner, and hence, our control over the operations, and over our technology which we developed at great expense.

There are a host of other restrictions on foreign direct investment, including requirements for export performance, local content, technology transfer, and so on. In combination, these restrictions make it unattractive for U.S. firms to invest. Unfortunately, in many cases a decision not to meet these demands may deny a U.S. firm from fully participating in these markets.

With these problems in mind, we support legislation that would mandate and authorize our negotiators to seek bilateral and multilateral agreements to reduce the trade and capital flow distorting effects of such investment restrictions.

We also support expanding the President's authority to respond under section 302 if such negotiations are unsuccessful and such practices continue unjustifiably or unreasonable to burden, restrict or discriminate against U.S. investment.

Finally, Mr. Chairman, any trade legislation which Congress enacts must be consistent with the GATT.

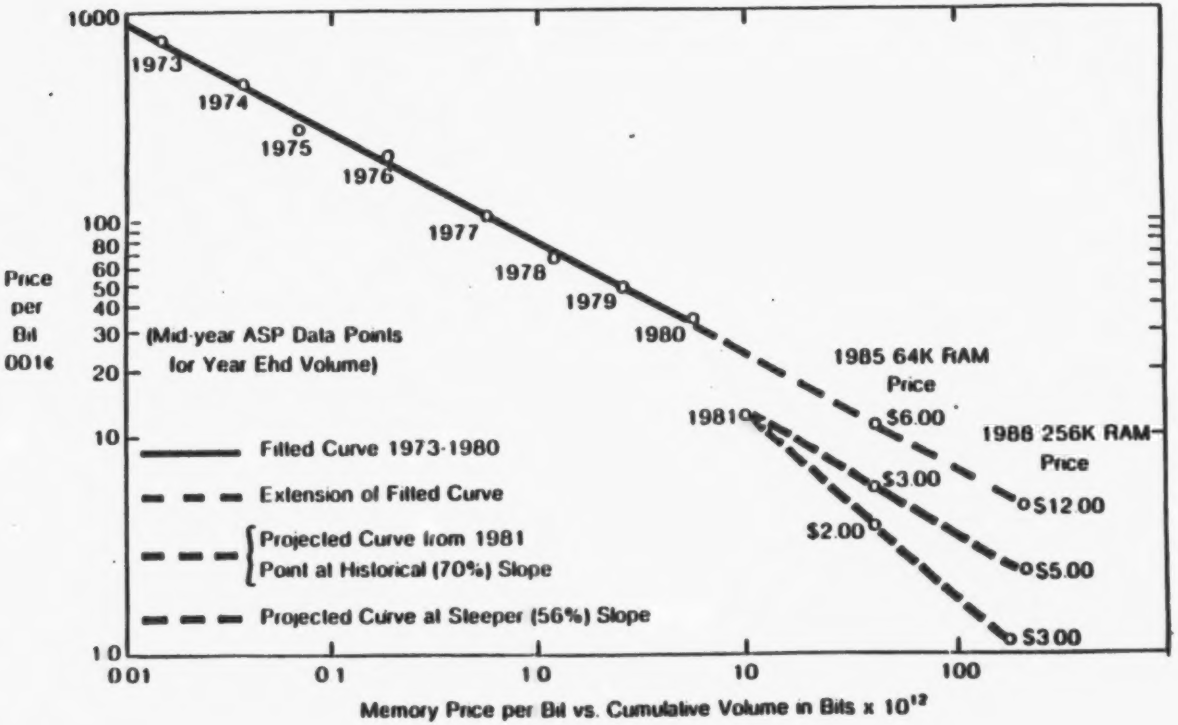
Since the creation of the GATT, the United States has taken the lead role in efforts to persuade our trading partners to adopt the GATT's basic multilateral principles of national and most-favored-nation treatment, and thereby reduce world barriers to product exports. In asserting this leadership role, Congress has deliberately

CHART B

Learning Curves,
Price per Bit vs. Cumulative Volume in Bits

Mos Dynamic RAMs

Best Available Cop



chosen to lead by example by passing trade laws to mirror those of the GATT.

AEA believes it is vital for the United States not to abdicate this leadership role. Any action that would compromise this role would likely lead to greater barriers to our product exports. And chances are good that our strongest, most competitive, exporters would be the ones to bear the brunt of these new barriers.

The GATT currently provides for reciprocity under mutually agreed procedures and rules. AEA supports that process. We would thereby support legislation which would reinforce the U.S. commitment to that process.

AEA opposes legislation that would allow unilateral retaliation or require bilateral reciprocity for products trade outside the GATT on an industry sector or product basis. Such legislation would invite protectionism and retaliation here and abroad.

[The prepared statement follows:]

STATEMENT OF ROWLAND H. THOMAS, JR., VICE PRESIDENT, AMERICAS/FAR EAST, DATA GENERAL CORP.

SUMMARY

Congress should enact legislation which would:

Be consistent with the letter and spirit of the GATT system and United States' obligations thereunder.

Mandate and authorize the President to negotiate bilateral and multilateral treaties covering foreign direct investment and trade in services.

Expand the authority of the President under Section 301 of the Trade Act of 1974 to respond to foreign barriers to U.S. foreign direct investment.

Call on the Trade Representative and the Secretary of Commerce to compile an inventory of foreign nontariff barriers to U.S. exports of products and services, and foreign direct investment.

Require a periodic report to Congress by the Trade Representative and Secretary of Commerce on the steps planned or taken to have these foreign barriers reduced or eliminated.

Recommend special attention to be focused on the high technology sector.

STATEMENT

Mr. Chairman and members of this distinguished committee, my name is Rowland H. Thomas, Jr., Vice President, Americas/Far East, of Data General Corp., based in Westborough, Mass. Data General is one of the world's leading manufacturers of small computers and related equipment and services. Founded just 14 years ago, we now employ more than 14,000 people. Our sales in 1981 were $740 million—about 35 percent of that from exports. We have grown at a rate of more than 35 percent annually, largely because our products increase the productivity of our customers.

I am appearing before you this morning on behalf of the American Electronics Association. AEA is a trade association of more than 1,900 electronics companies in 43 states. Our members manufacture electronic components and systems or supply products and services in the information processing industries. Our member companies are mostly small businesses currently employing fewer than 200 people.

U.S. exports of products manufactured and sold by AEA member companies have continued to grow. Over the 6-month period of January through June 1980, there was a total of $2.7 billion of exports of selected high technology products. This is an increase of more than 25 percent over the same period in 1979. While imports of similar products into the United States also enjoyed a healthy growth, the ratio of exports to imports remained at a high ratio of almost 3.5 to 1.

First, Mr. Chairman, I want to express AEA's appreciation for the leadership you and the members of the Subcommittee have shown in focusing Congress' attention and concern on the problems U.S. firms face abroad. We welcome this opportunity to testify in support of assisting the United States Trade Representative in reducing barriers abroad to U.S. exports of products, services and foreign investment. We believe that this country must be forthright and aggressive in pursuing our trade and investment interests and rights. This, coupled with the trade enhancing tax measures you passed last year, will go a long way toward insuring the future competitiveness of U.S. electronics industries in world markets.

AEA believes that today we are at an important point of time for U.S. trade and investment policy. Great pressure is being placed on the GATT system of international trading rules because of what it does, and what it doesn't do. On the one hand protectionist forces, pointing to the visible effects of the current worldwide recession, are getting stronger both here in the United States and abroad. The political pressure is real to raise new tariff and nontariff barriers to product exports, and to reinforce exisiting ones. On the other hand, increased use of "industrial policies" is resulting in protectionist mechanisms that are not covered by the GATT rules, but which threaten to undo the significant progress made since GATT negotiations began in 1948.

OBJECTIVES OF TRADE LEGISLATION

AEA has assessed these domestic and foreign political pressures, and analyzed carefully the bills introduced by members of this Subcommittee and Congress. We believe now is the time for the United States to do all it can to resist protectionism here and overseas by working to shore up the GATT system and to expand the system of international rules to cover foreign investment and services. By initiating and passing appropriate legislation, Congress can address this dual threat to continued expansion of world markets by providing our negotiators the statutory backup and policy guidance they need to be successful in this critical endeavor. We think it is important that any legislation in this area:

Be consistent with the letter and spirit of the GATT system and U.S. obligations thereunder.

Mandate and authorize the President to negotiate bilateral and multilateral treaties covering foreign direct investment and trade in services.

Expand the authority of the President under Section 301 of the Trade Act of 1974 to respond to foreign barriers to U.S. foreign direct investment.

Call on the Trade Representative and the Secretary of Commerce to compile an inventory of foreign non-tariff barriers to U.S. exports of products and services, and foreign direct investment.

Require a periodic report to Congress by the Trade Representative and Secretary of Commerce on the steps planned or taken to have these foreign barriers reduced or eliminated.

Provide essential special attention on the high technololgy sector.

Several bills before this Subcommittee, such as H.R. 5596 introduced by Mr. Frenzel, and H.R. 5457 sponsored by Mr. Brodhead, meet some of these objectives and principles. AEA is pleased that Messrs. Shannon, Gibbons, Guarini, and Matsui have introduced H.R. 6433 which addresses all of them. We urge this Subcommittee to report out a bill whose provisions contain these elements. It will thereby assist our Trade Representative in reducing barriers abroad to U.S. products, services and foreign investment. And by doing so it will alleviate the growing pressure in Congress to enact new protectionist and other GATT-inconsistent trade laws.

Let me now discuss our reasoning in light of some of the major difficulties our members increasingly face abroad.

HIGH TECHNOLOGY

If we examine our trade performance over the last two decades, it's clear that our R&D intensive, high technology industries are performing well in holding up the U.S. balance of trade. Our noon R&D intensive, less competitive industries are in trouble, some partly because of foreign industrial policies that have targeted these sectors for special attention.

The United States has a distinct comparative advantage in high technology manufactured products and related services. Unfortunately, nearly all countries, industrialized as well as the Less-Developed-Countries, want to have their own high technology industries precisely because of the benefits the United States now reaps from them: new and better jobs, increased productivity, greater income and the better standard of living which results. Consequently, many governments have targeted this sector for intervention via industrial policies, combining protectionism and active support.

Our industries require a worldwide market in order to support the increasingly expensive R&D and capital investments needed to stay in the forefront of technology and meet customer needs. The United States needs sto be aggressive on efforts to keep these markets open to competition based on price and quality, other than on national origin. If the United States does not, we run the risk of losing the enormous benefits that our technologies can bring to the United States and to other countries. In our industry, we're only seeing the crudest beginnings of what can be accomplished to improve productivity and raise the world's standard of living. We are pleased that Ambassador Brock intends to place the sector on the agenda for the GATT Ministerial talks. We believe that the provisions of H.R. 6433, the "High Technology Trade Act of 1982", provides a comprehensive basis and approach for negotiations in this forum or in other bilateral or multilateral talks with our principal trading partners.

FOREIGN INVESTMENT BARRIERS

For the last several decades, the United States has led the way in getting other countries to reduce their tariff barriers to U.S. product exports. As these feasible tariff barriers have come down, however, new, more subtle non-tariff barriers appeared. While the Tokyo Round MTN agreements addressed some of these non-tariff barriers, many remain.

Unfortunately, some of the most serious of the non-tariff barriers are ones which are not covered by any multilateral rules, namely restrictions on foreign direct investment. This situation has been in part caused and compounded by two factors.

One, U.S. international investment policy has been neutral. That is, U.S. policy has been one of neither encouraging nor discouraging flows of direct foreign investments, and Congress has chosen to lead by example and by avoiding barriers to foreign direct investment in the United States. Unfortunately, we haven't coupled this exemplary role with aggressive efforts to see that it is followed by others. At the same time, our negotiators' attention has been focused on efforts to reduce barriers to products trade under the GATT.

This neutral and passive policy has been undergoing review and consideration by the Executive Branch, and we are encouraged by actions which signal its increased priority status on the United States Trade Representative's agenda.

Two, the public discussion of this issue is quite sensitive for U.S. firms. Companies do not complain openly because they fear retribution. For years they have had to grapple with investment restrictions on their own, due in large measure to the lack of an aggressive U.S. policy. In some countries, firms have been able to negotiate agreements, often skewed in favor of the host nation, but which at least give them some limited access. These arrangments are something less than secure and subject to change at any moment. Because they are so tenuous, most firms are understandably reticent to be identified publicly with any criticism of the governments involved.

But that's not because the problem is not wide spread. It is. Restrictions on foreign direct investment are formidable, especially for the smaller firm.

In our industry in order to sell computer systems or other high technology products to customers overseas there must be a commitment—made by us—to provide service and maintenance for the products we sell. We must have the ability to establish local subsidiaries for these purposes. It is for this reason that we view investment and trade as two sides to the same coin. Their interaction is vital since they provide mutual support for each other in world competition. The ability to invest in manufacturing, sales and service operations is a primary vehicle of trade today.

For young companies such as ours, the most onerous of these are restrictions on our ability to establish local, majority owned sales and service subsidiaries that we can manage properly. In an increasing number of countries, we cannot now establish such subsidiaries unless we are willing to surrender majority ownership to a local partner, and hence, our control over the operations, and over our technology which we developed at great expense. The ability of an American company to take advantage of business opportunities in a rational and timely way is limited if it has approval for such actions. The majority owner may have no interest in our knowledge of the business and may be unable to appreciate the dynamics of the situation as they arise.

There are a host of other restrictions on foreign direct investment, including export performance requirements, demands that a certain percentage of the final product contain materials or technology that is "sourced" locally, requirements that the foreign firm transfer the technology or "knowhow" either immediately or after a certain period of time, requirements for local training and conduct of R&D within the host country, and so on. In combination, these restrictions make it unattractive for U.S. firms to invest. Unfortunately, in may cases a decision not to meet these demands may deny a U.S. firm from fully participating in these markets.

Mr. Chairman, companies such as ours are not out simply to take advantage of an economy, and then exit without leaving anything behind. We are interested in complete, long term involvement in those economies, which means realistically contributing to the local infrastructure and technology base. But these contributions flow naturally from the demands of our business. They cannot be dictated by government fiat. We have a mutual interest which can be met only by allowing a competitive, fast-moving business to be managed like one.

With these kinds of problems in mind, we strongly support legislation that would mandate and authorize our negotiators to seek bilateral and multilateral agreements to reduce the trade and capital flow distorting effects of such investment restrictions. In the short term, bilateral treaties are the practical solution. We would be following the practices of France, Germany, Japan and others in doing so. The longer term objective would be multilateral solution, based on the numerous bilateral arrangement that could provide the necessary momentum for new international rules.

We also welcome expansion of the President's authority to respond under Section 301 if such negotiations are unsuccessful and such practices continued unjustifiably and unreasonably to burden, restrict, or discriminate against U.S. investment. U.S. negotiators presently have little leverage in this area. Presidential authority to respond would provide an appropriate and needed bargaining tool.

INVENTORY OF NTBS TO PRODUCTS, SERVICES AND FOREIGN INVESTMENT

AEA would support legislation to require the USTR and the Commerce Department to develop an inventory of the major non-tariff barriers abroad to U.S. product and service exports, and foreign direct investment. We also support provisions that would require periodic reports to the Congress on the steps the United States Trade Representative has taken, or plans to take, to have these barriers reduced or eliminated.

CONSISTENCY WITH THE GATT

Since the creation of the General Agreement on Tariffs and Trade (GATT) the United States has taken the lead role in efforts to persuade our trading partners to adopt the GATT's basic multilateral principles of national and most-favored-nation treatment, and thereby reduce world barriers to product exports. In asserting this leadership role, Congress has deliberately chosen to lead by example by passing trade laws to mirror those of the GATT; I think that is is fair to say that without the U.S. commitment, there would be far more trade barriers abroad than there are today.

AEA believes it is absolutely vital that the United States not abdicate this leadership role. Any action that would compromise this role would likely lead to greater barriers to our product exports. There are many countries which would welcome an excuse to bend to domestic pressures and erect new import restrictions. There are others which might well feel compelled to retaliate if U.S. legislation were to affect exports negatively. And chances are good that our strongest, most competitive, exporters would be the ones to bear the brunt of either reaction. The negative consequences for jobs, income and related tax revenues could be enormous if this were to occur.

The GATT currently provides for reciprocity under mutually agreed procedures and rules. AEA supports that process. AEA therefore would support legislation which would reinforce the U.S. commitment to that process. We would thereby support its continued use in assessing whether a given country or group of countries is measuring up in an overall sense, given the specific circumstances, to its trade agreement or GATT obligation and responsibilities and thereby be eligible for future U.S. trade concessions.

AEA opposes legislation that would allow unilateral retaliation or require bilateral "reciprocity" outside the GATT on an industry sector or product basis. Such legislation would fly in the face of GATT principles and obligations, and would invite protectionism and retaliation here and abroad.

Mr. Chairman, that concludes my statement. If there is any message with which I want to leave you, it's this: We must aggressively enforce abroad our trade and investment rights and interests. We cannot afford to abdicate our leadership for free and open markets for trade and investment. We must be aggressive at home in resisting the temptation to raise trade barriers. And we must be forward-looking and see to the needs of our strongest industries before the weight of barriers abroad become so heavy as to be politically too difficult to eliminate. Viewed from our perspective, we no longer have the luxury of time. We need legislation and policy that addresses these objectives now.

Thank you again for this opportunity to testify. I'd be pleased to answer any questions you might have.

Chairman GIBBONS. I want to thank all of you for coming and giving your statements.

I listened here, and I am going to read them in the next couple of days.

In that regard, Mr. MacTaggart, I want to ask you some questions, and really the questions are for the whole panel.

As I understood your statement, Mr. MacTaggart, you said this legislation was not really necessary; and your fellow panel members obviously don't thoroughly agree with you on that.

I don't want to misstate your position. Am I correct?

Mr. MACTAGGART. I didn't think the legislation was necessary; that I believed we had sufficient machinery under the 301 and 124 in GATT to accomplish the objectives that we had in mind.

Chairman GIBBONS. Do you object to the legislation, or do you think it is unnecessary?

Mr. MACTAGGART. We think it is unnecessary.

Chairman GIBBONS. You have no active position against it.

Mr. MACTAGGART. No, but we don't believe it to be necessary.

Chairman GIBBONS. You mentioned you were caught in negotiations in Paris on patents with WIPO.

Mr. MACTAGGART. That is a world industrial property organization which virtually abrogates patents in the Third World.

Chairman GIBBONS. That is what worries me.

Mr. MACTAGGART. It is a United Nations agency similar to UNCTAD.

Chairman GIBBONS. I am very reluctant to let go of, by default, all of these things to UNCTAD and whatever that name is—WIPO. What do you do when you are in that kind of a forum, and you get no results? Wouldn't it be better in the offices of GATT if we sat down and tried to work out your problems there with other things on the table in the process of give-and-take? Couldn't we improve your position?

Mr. MACTAGGART. I think that is very true; yes. That is one of the points we have been trying to make. We think the machinery is there with GATT to do just that.

Chairman GIBBONS. You don't think we have been vigorous enough in it.

I am worried, and you perhaps heard me when I said to the administration witnesses, how much effort are you really putting on this, and how much are you really doing to get ready. I was not happy with their response, and I intend to say a little more to them personally about it, but I am convinced that we must anticipate the problems that we have.

You see them as problems right now. Unfortunately, I am afraid the legislative bodies see them as something way down the road that we will get to sometime. But I agree with you, we need to move ahead. While you may agree that we have enough laws already, for some reason they are not working, and we want to try to make them work a little better.

Do any of the rest of you have any comments?

Mr. **Sporck**. Mr. Chairman, I think we cannot overemphasize the fact that we are running out of time.

High technology is a kind-based kind of thing relative to each particular technology, and we are dealing with the time risk mode on a number of technologies right now, and maybe there are laws, et cetera, procedures there to do something about it, but certainly nothing has been done, and it would seem to me that what truly is needed is a clear message and a clear tool for doing something about it right now.

Chairman **Gibbons**. Well, on that note, we will conclude today's hearings with the hope that we can get to a markup as rapidly as possible.

I will try to promote this.

Let me say to the Armed Services Committee, thank you for the use of their room; we appreciate it.

The hearing is adjourned. This concludes the hearings on services and high-technology trade.

The record will remain open for statements until June 1.

[Whereupon, at 5:40 p.m., the hearing was adjourned.]

[The following were submitted for the record:]

STATEMENT SUBMITTED BY ARTHUR ANDERSEN & CO.

SUMMARY OF COMMENTS

I. We are pleased that Congress is focusing its attention on the necessity for free trade in the service sector.

II. We enthusiastically agree that there is a need to foster trade in services by eliminating the barriers surrounding service sector trade in foreign markets. Artificial barriers to such trade, whether imposed by the United States or other countries, are inconsistent with the objective of providing competent services to the public.

III. A health, competitive service sector is critical to U.S. trade policy. Increased service sector trade in foreign markets will expand entrepreneurial opportunities in all sectors, as well as provide support to multinational business.

IV. Service sector trade has achieved its own commercial vitality. Commensurate with this achievement is the development of wide-ranging demands which ultimately touch upon most facets of our economy.

V. Amendments to the negotiating objectives of the Trade Act of 1974 should create a positive basis for establishing a practical bargaining posture and for negotiating trade in service contracts, aimed at securing free trade in services.

VI. We applaud the development of U.S. policy awareness concerning trade in services.

INTRODUCTION

Arthur Andersen & Co. is an international accounting organization with offices in about 150 cities around the world. Roughly one-third of our practice is conducted in foreign countries and about one-third of our personnel are foreign nationals with professional credentials appropriate to those countries.

While we have many clients that would be affected by H.R. 5383, we do not represent them in this testimony. The views expressed are those of our organization, based on our experience in providing professional services to clients in all parts of the world for many years.

In performing those services, we have seen some restrictions on the providers of services in several countries, including the United States. The fundamental principle that should guide the policies of all countries with respect to trade in services is the public interest. Artifical barriers to providing such services do not seem to us consistent with the public interest, and all countries should work toward their elimination.

We have reviewed H.R. 5383, legislation which proposes to encourage multilateral trade negotiations in the service sector and to expand and clarify U.S. trade laws as they pertain to service industries. We are pleased that the Subcommittee on Trade is focusing its attention on the necessity for free trade in the service sector. As noted above, we agree that there is a need to foster trade in services by eliminating the barriers surrounding service sector trade in world markets. We believe this type of legislation would also enhance growth in the manufacturing, agricultural and labor sectors.

IMPORTANCE OF THE SERVICE SECTOR

Service sector trade in world markets is of paramount importance to the U.S. economy. Based upon the data cited in the proposed legislation, a healthy, competitive service sector plays a significant role in offsetting balance-of-payments deficits attributed to other sectors. This is highlighted by the contribution of the service sector to U.S. trade receipts. Additionally, the emphasis placed upon balance of payments by the U.S. trading partners warrants legislation that recognizes the importance of the service sector. The proposed legislation is an appropriate vehicle to implant the significance of the service sector in the U.S. trade policy.

The priority accorded trade in services by this legislation, together with the magnitude of service sector revenues, can only lead to beneficial consequences for other sectors of the economy. Increased service sector trade in foreign markets will expand extrepreneurial opportunities in the manufacturing, agricultural and labor sectors, in addition to the support which it provides to multinational business.

Expanded opportunties arise, for example, through the need for capital expansion. Most services involve making available capital facilities. The marine transport, air transport, warehousing, and telecommunications industries are illustrated by this fact. These service industries are both capital and labor intensive and, accordingly, an increase in the service aspect would result in capital expansion and higher employment which would have a favorable effect upon the manufacturing and labor sectors.

Furthermore, additional opportunities arise through the need for direct nonservice sector input into the flow of commerce. The proposed legislation attempts to satisfy these needs in that it will enable the other sectors to expand and improve through the service sector. Some services require direct use of nonservice sector industries. For example, retailing, lodging and food services require the direct contributions of the agricultural, manufacturing and labor sectors for their economic survival. Consequently, the proposed legislation in this regard should have a favorable impact upon all sectors of the economy.

These illustrations support our belief that the proposed legislation is vital to the growth of both the service and nonservice trade economy.

COMMERCIAL VITALITY OF SERVICE SECTOR

We concur with the attempt to recognize the commercial vitality of U.S. service sector trade in foreign markets. The proposed legislation properly directs public attention to the importance of the service industry to U.S. trade, an area that prior to this legislation has essentially been ignored in trade policy consideration.

We recognize the service sector's vital role in commerce. The service sector, in fact, has taken on a commercial life of its own and is not necessarily subsidiary to trade in merchandise. Commensurate with this commercial vitality is the development of wide-ranging demands which ultimately touch upon most facets of our economy.

For example, the moving of people between countries for business, pleasure and educational purposes has greatly stimulated a demand for transport and other related services. Demands for services also increase when U.S. multinationals draw their domestic suppliers into foreign markets.

In addition, the need for spontaneous global communication and data collection for decisionmaking has created demands on the electronic and telecommunications industries which touch upon all sectors of our economy. Politically induced expectations derived from governmental programs have created demands from the social services sector.

Similarly, the influx of the service sector into foreign markets generates higher levels of disposable personal income, both at home and abroad, to the ultimate benefits of all sectors.

These examples illustrate some of the more significant contributions based upon demands on the service sector. The proposed legislation assents to this and, hence, draws our full support.

FOSTERING TRADE IN SERVICES

We applaud amendments to the negotiating objectives of the Trade Act of 1974 to include as principal goals the reduction or elimination of barriers to trade in services, and the improvement and coordination of service sector trade issues between and among U.S. Government organizations, state and local governments, and the private sector. Through effective communication of these objectives, the United States can faithfully negotiate trade-in-service contracts in both bilateral and multilateral contexts.

The statutory framework that is being developed to remedy present practices that deny service sector access to foreign markets, discriminate against U.S. service trade in foreign markets, create nontariff restrictions, and generate subsidies to local and governmental competition, is a key to this legislation.

The objective of trade policy relating to the services industry should be neutrality. Neither the United States nor other countries should enforce restrictions on access to each other's economies based on artificial and protective policies. Service industries, by definition, serve the public, and the ultimate objective should be to provide competent services to those who need them in all countries.

On the other hand, it would be fruitless to completely abandon the notions of protectionism in foreign trade in services. The United States, as well as its trading partners, must seek to protect its national security, domestic sovereignty, and cultural integrity. However, through open networks of communication and policy positions premised on negotiating objectives like those contained in the proposed legislation, the effects of protectionism can be mitigated and free trade in services secured.

Achievement of these goals is facilitated by the coordination mechanisms set out in the proposed legislation. The bill consolidates the coordination of service trade policy in the U.S. Trade Representative's office, and grants the Department of Commerce a broad mandate to improve its services data base. The bill further requires independent federal regulatory agencies to consider service trade as a factor in making their decisions.

Furthermore, state governments must be integrated into service trade considerations where the potential exists that the Federal Government may usurp an area that is otherwise within a state's province. These administrative mechanisms are desirable in improving and coordinating service sector trade issues between and among U.S. Government agencies, state and local governments, and the private sector.

DEVELOPMENT OF U.S. POLICY AWARENESS

We applaud the bill's lead in creating an impetus for collecting data on trade service operations. Presently, only limited data on trade service has been quantified. The proposed legislation takes a welcomed initiative in providing for the collection and analysis of service data as inputs for domestic policy formulation and for international negotiations. This data collection and analysis within the U.S. Government can be linked to initiatives within the international institutions to develop agreed upon measures for data. In this regard, a logical starting point will be to identify and analyze data already available to various government agencies. Additional data that may be needed should be carefully defined to avoid undue burdens on service entities asked to provide it.

We further applaud the bill's recognition of the need for the unrestricted transfer of information and use of data processing facilities in the conduct of multinational service industry activities. The proposed legislation arrives at a time when certain trading partners are contemplating the imposition of restrictive measures to regulate cross border data flows. Advances in information technology, free of restrictions, will revolutionize business activity worldwide, and offer great potential to all sectors of both United States and foreign economies.

The bill should also support U.S. efforts to identify service trade issues as priority items on the agenda of the GATT ministerial meetings, as well as other international organizations such as the OECD. This legislation will support the U.S. objective to work toward a framework agreement on liberal trade principles for services. Progress along these lines should lead to multilateral negotiations to develop codes for services.

Finally, as stated earlier, we note that the U.S. service sector anticipates increased competition in multinational markets, often with the support and encouragement of foreign governments. This support and encouragement may come about through forms of disguised protectionism. The legislation proposed is an effective measure to respond to increased and questionable competition from other countries.

CONCLUSION

The fundamental objective of U.S. trade policy in the service area, as well as in other major segments of our economy, should be free and unrestricted trade. The enactment of H.R. 5383 should increase recognition of the importance of the service sector to the United States' economic well-being.

This legislation should also encourage multilateral trade negotiations in the service sector and expand and clarify U.S. trade laws as they pertain to service industries, and provide for significant future benefits to all segments of our economy. The bill represents an effective legislative framework for trade service policy and our firm is pleased to support it. We praise the initiatives being taken by this Congress and the Administration in recommending policy that encourages negotiation of international agreements intended to eliminate present barriers surrounding service trade in world markets.

We appreciate the opportunity to submit our views on these matters, and urge favorable action by Congress on this legislation.

CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE,
New York, N.Y., May 25, 1982.

Mr. JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. SALMON: In response to the press release issued by the Subcommittee on Trade on May 12, 1982, inviting public comments on H.R. 5383 and H.R. 5579, I would like to submit a few brief remarks to assist the Committee in its consideration of the "Trade in Services Act of 1982."

I am currently a senior associate at Carnegie Endowment for International Peace, where I am directing a project on international trade in services. The views expressed below are my own, and do not reflect the position of the Carnegie Endowment. I am writing in the hope that the insights on the General Agreement on Tariffs and Trade (GATT) that I gained as a member of the U.S. delegation in prior trade talks may prove useful to the Committee in its deliberation on H.R. 5383.

It has been only a few short years since the conclusion of the Tokyo round of multilateral trade negotiations (MTN), but already there is strong evidence that many countries (including our own) are poised to back away from their MTN commitments to trade liberalization and the maintenance of an open world trading system. Indeed, we are already witnessing a dangerous drift towards trade protectionism. Not only are barriers rising to block traditionally traded goods such as automobiles, steel and textiles, but new, more subtle, restrictions are now being imposed to deter the expansion of world trade in services.

Both the United States and our trading partners have a keen interest in the reversal of this trend. I believe that H.R. 5383 correctly identifies the issue of barriers to trade in services as one of the key problems that needs to be addressed in the GATT. It is a matter that should be given high priority by the United States in future international trade negotiations.

This said, however, it is important for the Committee to recognize that H.R. 5383, as presently drafted, may not be very helpful in getting our services initiative off the ground. The reason is simple: the United States is trying to pursue too many trade issues at once in the GATT, and our trading partners don't really know what is important for us and what is not.

For example, we are currently both attempting to take care of old, intractable trade problems (such as agricultural export subsidies and a code on import safeguards) while at the same time raising new issues relatively untouched by international discipline (e.g. services and investment). On top of this, we have picked a slew of trade fights to demonstrate our concern about the enforcement of the MTN codes, but we have done so in a way that raises politically-sensitive issues that have little chance of being resolved in the GATT.

What we have not done, however, is to indicate what priority we set on each of our trade actions. As a result, we run the risk that important trade initiatives such as services may get shunted aside while lesser, but more contentious, trade problems tie the work of the GATT up in knots.

We clearly need to develop a realistic set of priorities to maximize the benefits of our participation in the GATT. To do so, we should pursue only those problems that can realistically be resolved in the GATT context. In this regard, we need to reconsider whether many of our agricultural trade problems with the European Community (EC) would be better dealt with bilaterally instead of through GATT channels.

Provisions in both GATT Article XVI and the Subsidies Code do not afford strict discipline over agricultural export subsidies. As one of the negotiators of the Subsidies Code, I know that this is one area where we fell woefully short of our negotiating objectives during the MTN. As a result, it has been hard to develop technically sound GATT cases against the EC in spite of their blatant export subsidy programs. I fear that if we continue to press for GATT action in these cases, we may end up in a fruitless debate that has no other result than to effectively block all movement towards trade liberalization in the GATT in general, and our initiatives on services and investment in particular.

This is *not* to say that the dispute settlement procedures of the GATT are ineffective. Rather, we need to be more discriminating and only bring disputes before the GATT when we have a solid case, so that we can build up a body of case-law in the GATT that reinforces the dispute settlement procedure.

Before entering into new trade talks, we therefore need to develop a clear sense of priorities for what we want to achieve overall in the GATT. H.R. 5383 spells out Congressional intent that we proceed expeditiously to tackle the problem of trade in services, and contains numerous provisions which would help the Administration "get its act together" both with regard to its internal deliberations and its dealings with Congress and independent Federal and State regulatory bodies. The bill should go further, however, to direct the Administration to give the problems of trade in services priority over other GATT initiatives that stand a much smaller chance of success.

This said, I have a few brief comments on specific provisions of the bill:

SECTIONS 4(b) AND 5(d): CONSULTATION WITH STATE GOVERNMENTS

I would caution the Committee against placing too much stock on the need to coordinate Federal trade policies with the policies of State governments for those services over which the States have regulatory responsibility. Although it is desirable that the U.S. Trade Representative (USTR) be able to put forward a unified national policy when negotiating with foreign governments, it is not essential in the areas of banking and insurance that he should be able to reflect the views of State regulatory agencies in such talks. In these sectors, foreign governments are primarily interested in the policies of only a few States—notably New York, Illinois and California. Any problems with those State policies can be handled bilaterally—as they have been in the past with reasonable success. Thus U.S. negotiators are not really hamstrung in international negotiations by not being able to commit the States to international agreements on sevices.

Section 4(b) goes too far in mandating State government participation in the development of negotiating objectives for future international talks on services. This section would in essence give State representatives a veto over Federal trade policy. The USTR should not be burdened with such an obligation. On the other hand, there is nothing wrong with maintaining an open line of communications between State and Federal officials on these matters. In fact, Executive Branch agencies already consult with State governments concerning service trade problems, and as such, Section 5(d) mandates nothing more than what is already being done.

I would therefore recommend the deletion of Section 4(b)(2) from the bill.

SECTION 6: SUBSIDIZATION AND UNFAIR PRICING

Section 6 would give the USTR the responsibility, under Section 301 of the Trade Act of 1974, to determine both the existence of dumping or subsidization of services sold by a foreign supplier, and whether there is injury or threat of injury to a domestic service industry by reason of such sales. It would thus have the USTR assume the responsibilities currently carried out by the Secretary of Commerce and the U.S. International Trade Commission under the countervailing duty and antidumping statutes, but only for petitions filed by service industries.

There is no reason why complaints about foreign subsidies and dumping petitioned by a service industry should be handled any differently than petitions from other U.S. industries. There is also no reason to amend Section 301 of the Trade Act of 1974 so that it effectively duplicates the provisions of the countervailing duty and antidumping statutes. This section is not needed, and should be deleted.

SECTION 8: FEDERAL REGULATORY AUTHORITIES

Federal agencies that regulate domestic service industries should not be given the authority to impose trade restrictions independent of the authority granted the USTR to determine and administer U.S. trade policy. We need one consistent, national trade policy—Section 8, particularly subsection (c), would run counter to that objective.

Thank you very much for the opportunity to present my views.

Sincerely yours,

Jeffrey J. Schott,
Senior Associate.

Statement of National Machine Tool Builders' Association

I. INTRODUCTION

The National Machine Tool Builders' Association (NMTBA) is a national trade association representing over 400 American machine tool manufacturing companies, which account for approximately 90 percent of United States machine tool production. Although the total machine tool industry employs approximately 100,000 people with a combined annual output of around five billion dollars, most NMTBA member companies are small businesses with payrolls of 250 or fewer employees.

While relatively small by some corporate standards, American machine tool builders comprise a very fundamental segment of the U.S. industrial capacity and have a tremendous impact on America. Our industry builds the machines that are the foundation of the United States' industrial strength and military preparedness. Without metal cutting and forming equipment—machine tools—there would be no manufacturing as we know and have come to rely upon today. From a consumer point of view, modern machine tools enable domestically affordable and internationally competitive luxuries of modern life. And even more importantly, without state-of-the-art technology our defense industrial base would be dangerously less capable of meeting the needs of national defense in peace time, much less responding to the demands of increased military production in a time of national emergency.

With this background in mind, we thank you for once again giving us the opportunity to express our views.

II. THE U.S. MACHINE TOOL INDUSTRY HAS LOST ITS COMPETITIVE EDGE

A. *Our Domestic Market Has Been Penetrated by Foreign Competition on an Unprecedented Scale*

While the domestic U.S. machine tool market has been oscillating with very little real growth since the middle 1960's, the world market has grown substantially. Unfortunately, most of this worldwide expansion has been absorbed by our foreign competitors, eroding our market share.

In the middle 1960's, the American machine tool industry supplied approximately one-third of the total global market. In other words, one out of every three machine tools consumed in the world was produced by an American machine tool builder. However, by the end of 1981, that portion had fallen to only 1 in 5.

This dramatic decline is the result of two factors. First, our domestic market has been invaded by foreign competitors on a scale never before imagined. Since 1964, America's imports of foreign machine tools have grown six-fold from 4½ percent of total consumption 18 years ago to almost 30 percent in 1981, based on value. As a share of units, that is, machines actually installed, in 1981 imports accounted for 36 percent of U.S. consumption; of the most technically advanced and defense sensitive equipment, (numerically controlled lathes and machining centers) imports comprised more than 50 percent of all U.S. sales.[1] During this period, orders for U.S. machine tools fell 37 percent, while imports increased by 14 percent.

As a result of the rising tide of imports, the machine tool industry's balance of trade was negative for the first time in history in 1978. In 1979 it was in deficit by $400 million; in 1980 by $513 million. The industry suffered its fourth straight year of negative trade balance in 1981 with a deficit of $455 million. (See Exhibit #1).

It is obvious, therefore, that because the United States is the largest open machine tool market in the world, our foreign competitors have pulled out the stops and are aiming their export marketing efforts directly at America. The alarming data outlined above reflects a systematic and determined undertaking by our foreign competitors to penetrate and capture the U.S. market. In the case of the Japanese, for example, this effort has been encouraged and stimulated by years of wide-ranging support from the Japanese government. It is an effort that has paid off: in the U.S. last year, one out of every seven dollars spent on machine tools was spent on machine tools built in Japan.

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[1] Imports accounted for two-thirds of the NC lathes, half of the NC machining centers and forging machines and three-quarters of the boring machines purchased in the U.S. in 1981.

We are not suggesting that import sales in our dometic market are a new phenomenon. As Exhibit No. 2 shows, the first wave of imports came during the mid 1960's, when import market share increased from about 4.5 percent to 12 percent. However, Exhibit No. 3 clearly illustrates the dramatic jump in the value of foreign machines sold in the United States between 1977 and 1980. The value of Japan's machine tool shipments to the United States increased substantially during this period (both in terms of actual dollar value and in terms of relative market-share), more than quadrupling since 1977.

Statistics detailing Japan's top ten machine tool markets for the years 1976 and 1981 also provide clear cut illustration that the Japanese have targeted the United States machine tool market. (See Exhibit No. 4)

In 1976, the United States market accounted for 22.4 percent of all machine tools exported from Japan. Even at this point American purchases comprised the single largest export market for Japanese machine tool builders, with the Republic of Korea second at 19.1 pecent.

By 1981, almost half of the machine tools exported from Japan were destined for American buyers. This amounted to close to eight times the volume sold to West Germany, the second largest Japanese foreign market in 1981.

While Japan's share of the United States domestic machine tool market more than tripled from 1976 to 1981 when expressed in numbers of units, the dollar value of Japanese exports into this country ballooned more than ten fold, from $67 million to over $688 million.

It is important to recognize the types of machines that are being supplied to our domestic manufacturers by our Japanese competitors.

Numerically controlled (N/C) lathes and machining-centers continue to constitute the largest proportion of imports. However, imports of grinding and polishing machines, gear-making machines and metalforming machines have all more than doubled in the last four years. But perhaps most significantly, imports of high technology machining centers have increased dramatically over the past several years to where they totaled more than $183.9 million in 1981.

In sum, we are losing an increasingly larger share of our domestic machine tool market to Japanese imports each year. But perhaps even more distressing is the changing character of that market share. It is increasingly comprised of more technologically advanced equipment (See Exhibit No. 5). In 1981 almost 71.4 percent of the Japanese metal cutting machine exports to the U.S. consisted of equipment with sophisticated numerical controls.

Paradoxically, these are essentially the same type of machines which we are prevented from selling in Eastern Europe, because of national security export controls. In other words, export controls restrict U.S. machine tool capacity, because of national defense concerns, while at the same time the industry's capacity to produce the same type of equipment is being restricted by imports. The national security implications are obvious.

This is certainly a development to which we can ill-afford to resign ourselves, particularly when there is every indication that this startling trend will continue and, most likely escalate.

A recent directive issued by the European Economic Community (EEC) called upon Japan to provide "tangible assurances" that from 1982 onwards, it will pursue a policy of "effective moderation" towards the community as a whole in those sectors where an increase in Japanese exports to the community would cause "significant problems."[2] Among those sectors targeted were certain machine tools, including numerically controlled lathes and machining centers. If the European community is successful in its attempts to restrict Japanese access to EEC markets, the U.S. will become a more visible and vulnerable import target than it is now.

B. A Dynamic and Competitive Domestic Machine Tool Industry is of Strategic Importance to America's National Security

In an effort to focus Congressional and private sector attention on the severity of the import situation and its very alarming implications for America's national security, NMTBA recently placed a full-page advertisement in The Washington Post. (See Exhibit No. 6) The message, loud and clear: it is wrong to make American weapons with foreign machine tools. It is wrong because it jeopardizes our national security; it puts Americans out of work, takes billions out of the American economy, decreases the tax base, increases the trade deficit, and helps to finance and stengthen foreign industry.

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[2] U.S. Department of Commerce, Incoming Telegram No. 84315, April 12, 1982.

The advertisement reflects NMTBA's growing concern about the deterioration of the defense industrial base and the serious effects this could have on defense industrial production.

Congressional concern about the serious decline in the nation's industrial capability became apparent in the 96th Congress, when the House Armed Services Committee created a special panel on the Defense Industrial Base. The findings of this special panel were released in a report dated December 31, 1980.[3] In his letter transmitting the report to the full Committee, Chairman Richard Ichord said:

"The panel finds that there has been a serious decline in the Nation's defense industrial capability that places our national security in jeopardy. An alarming erosion of crucial industrial elements, *coupled with a mushrooming dependence on foreign sources for critical materials, is endangering our defense posture at its very foundation.*"[4] (Emphasis added.)

The situation outlined by Chairman Ichord eighteen months ago has only become more exaggerated. Machine tools provide the basis for production of all military hardware, yet the U.S. is becoming increasingly dependent on foreign sources for equipment and machinery essential to a viable defense production industry. During periods of mobilization in a national emergency, this foreign source dependence could seriously undermine our national security. America's involvement in a war could render our foreign machine tools virtually useless, for lack of replacement parts.

Many in Congress and the Administration have acknowledged this disturbing situation. Such acknowledgment is obviously a crucial prerequisite to the enactment of any meaningful solution to America's increasing dependence on foreign sources of machine tools.

House Ways and Means Committee Chairman Dan Rostenkowski, Senate Finance International Trade Subcommittee Chairman John Danforth, and Senate Banking International Finance Subcommittee Chairman John Heinz have each recently written to President Reagan and others in the Administration to urge that action be taken to prevent the nation's Defense Industrial Base from being impaired by excessive machine tool imports. (See Exhibits #7, #8, and #9).

In his letter to the President, Senator Heinz made this telling observation:

"Clearly, this nation is losing its market leadership in this core industry, one important not only to the revitalization of our industrial plant but key to maintenance of the superiority of our defense industries as well. We simply cannot afford to become overly dependent on foreign sources for these vital products . . . the United States must remain at the cutting edge of technology in order to offset the numerical edge which our potential adversaries possess."[5]

C. Import Relief Under Section 232 of the Trade Expansion Act of 1962

NMTBA has recently decided to initiate action under authority of Section 232 of the Trade Expansion Act of 1962 to seek import relief on behalf of the domestic machine tool industry. Under Section 232 of the Act, the President may protect domestic industries from import competition that threatens to impair national security.

In a Section 232 proceeding, the Department of Commerce determines whether a threat to national security exists. If so, Commerce makes a recommendation to the President, who has broad discretion to adopt whatever remedy he believes appropriate.

The statute gives the President broad discretion following receipt of the Secretary's report and contains no time limitations for his decision or for relief. In making his determination, the President considers the same factors on which the Department of Commerce based its report. If the President concludes that the imports do not threaten national security, he will decline to impose relief. If he agrees with Commerce that a threat does exist, he is authorized to "take such action, and for such time, as he deems necessary to adjust the imports of such article and its derivatives so that such imports will not threaten to impair the national security. . . ."[6]

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[3] U.S. Congress, House of Representatives, "The Ailing Defense Industrial Base: Unready for Crisis," Report of the Defense Panel of the Committee on Armed Services, 96th Cong., 2d Sess., 1980.

[4] Id., at 1.

[5] Letter to President Reagan, from John Heinz, United States Senator, Washington, D.C., February 10, 1982.

[6] 19 U.S.C. § 1862(b). The only limitation on this power is a provision that permits Congressional disapproval of a Presidential action regarding imports of petroleum or petroleum products. 19 U.S.C. § 1862(e).

D. The International Trade Commission's Investigation of the U.S. Metalworking Machine Tool Industry

In February of this year, the International Trade Commission (ITC), on its own initiative, instituted an investigation of the U.S. metalworking machine tool industry.[7] The study was to assess the impact of the growing competition from imports on the U.S. machine tool industry and to explore the related development of further competition in the industry's overseas markets. As part of the investigation, the ITC also intended to examine the steps that have been taken and may be taken to counteract these developments. It appears that one impetus for the investigation was the Defense Department's concern about the effects of machine tool imports on the nation's industrial base.[8]

Unfortunately, the ITC terminated the investigation in April, citing "changes in workload and staffing limitations." (See Exhibit #10). We strongly urge that the ITC investigation be reinstated as soon as possible. An investigation of this nature would offer crucial documentation and provide a sound, credible, and independent assessment of the domestic machine tool industry. As such, this investigation could play a vital role in establishing the basis for appropriate levels of competitive assistance. NMTBA pledges its complete cooperation in the event that the ITC investigation of the machine tool industry is reinstated.

E. Eligibility Rules for the Application of the Investment Tax Credit

Some have proposed that Congress change the eligibility rules for the application of the 10 percent investment tax credit (ITC) so that it would not apply to purchases of foreign machine tools (SIC codes 3541 and 3542). Such action would not only have considerable revenue-raising impact, but would also reflect important national security considerations. In 1981, $1.429 billion worth of machine tools were imported into the United States. Six hundred fifty-seven million dollars came from Japan. Denial of the 10 percent ITC to these imported machine tools would have gained $143 million for the U.S. Treasury.

Because of the current recession, it is likely that total machine tools sales—and thus imports—will be substantially reduced from 1981 levels. However, even if (as is likely) 1982 machine tool sales are only one half of what they were in 1981, the revenue gain represented by the denial of 10 percent ITC for machine tools would be substantial—somewhere in the neighborhood of $70 million.

We have documented that the U.S. is well on its way to becoming foreign-source dependent for machine tools—a prospect which would seriously impair America's ability to respond in the event of a national emergency. Because of the very genuine national security implications involved in this proposal, it does not appear to be in violation of the General Agreements on Tariff and Trade (GATT).

International trade law has always recognized the ability of any nation to take steps that are necessary to protect its national security. National security is specifically cited by the Reagan Administration as the one basis upon which rigid advocacy of free trade is to be abrogated. For these reasons, we urge Congress to carefully consider this proposal when it enacts tax or "revenue enhancement" measures later this year. Any proposal to raise revenues will arguably cause "pain" to some taxpayers. Denial of the 10 percent ITC to imported machine tools, while causing "pain" to those who install them in their plants, does have the advantage of providing support for our beleaguered industry which is seriously threatened by imports. Perhaps most important, it will protect American industrial base and its ability to respond in the event of a national emergency.

III. CONCLUSION

Unquestionably, the competitiveness of the U.S. machine tool industry has declined in recent years. However, we want to stress our belief that this decline is not necessarily inevitable, nor is it irreversible, if acitons are taken now to prevent it.

U.S. machine tool builders have the capability and the expertise to meet competitive challenges from overseas. All we are asking is the opportunity to compete on more equal footing. We are certain you agree that the U.S. machine tool industry is too vital to the strength of the U.S. economy and America's naitonal security to let current conditions continue.

Again, we appreciate having had this opportunity to apprise this Subcommittee of the problems facing our industry.

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[7] Investigation No. 332-138, February 5, 1982, under Section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)).

[8] "Panel Probes Rising Tool Imports," American Metal Market, March 8, 1982, at 4.

Japanese Export Statistics EXHIBIT 4

1976 - Japan's top ten machine tool export markets comprised 78.2% of the value of total exports. These were:

	Country	(millions of dollars) Value of Exports	% of Export Total
1)	USA	$57.4	22.4%
2)	Rep. of Korea	48.9	19.1
3)	Poland	16.0	6.2
4)	Taiwan	14.8	5.8
5)	PRC	14.7	5.7
6)	Brazil	10.2	4.0
7)	Australia	9.2	3.6
8)	Russia	7.8	3.0
9)	U. K.	7.7	3.0
10)	Canada	7.1	2.8
11)	W. Germany	6.6	2.6
		$256.5	78.2%

1981 - Japan's top ten machine tool export markets comprised 79.7% of the value of total exports. The top ten were:

	Country	(millions of dollars) Value of Exports	% of Export Total
1)	USA	$691.1	49.0%
2)	W. Germany	87.2	6.2
3)	Australia	56.2	4.0
4)	U. K.	50.9	3.6
5)	Russia	49.6	3.5
6)	So. Africa	48.5	3.4
7)	Taiwan	46.8	3.3
8)	Belgium	34.9	2.5
9)	Korea	30.8	2.2
10)	Singapore	27.8	2.0
		$1,909.2	79.7%

Source: Japanese Tariff Association

Spring, 1982

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EXHIBIT 6

It's wrong

to make American weapons with foreign machine tools!

Wrong because... it puts our national security and safety in jeopardy. For a sustained defense effort America needs a strong machine tool industry. Yet, more than half of the computer controlled machine tools bought in America last year were imported.

Wrong because... it puts Americans out of work, takes billions of dollars out of the American economy, decreases the tax base, increases the trade deficit, and helps to finance and strengthen foreign industry.

Wrong because... you can't make anything, from combs to cars to rockets without machine tools. They are indispensable to American life. As this foundation is chipped away, everything we know is threatened.

Wrong because... it gives foreign manufacturers, and their workers, and their governments, vital bits of information about American defense efforts. Individually, these bits may be useless. But added up?

Wrong because... it "saves" pennies at the cost of impairing America's defense ability. We all want to balance the budget, but when we spend tax dollars for cheaper foreign machine tools, what has America saved? Less than nothing. The money "saved" has done irreparable damage to a vital American industry.

Wrong because... if America became involved in a war, our foreign machine tools could be rendered virtually useless, for lack of replacement parts. We live in a volatile world—anything can happen, anywhere, at any time.

American machine tools make America possible.

Mass production of rifles, one of Eli Whitney's ideas, was achieved with machine tools. It was called "The American System." American machine tools made us the arsenal of democracy in World War II. And they gave us the highest standard of living ever known on earth.

American machine tools are the foundation of American life as we know it. Yet last year we imported proportionally more machine tools than automobiles or steel. Why? Not because foreign machine tools are better or more advanced. Simply because they're cheaper. Why are they cheaper? For many reasons ranging from low wages to special government treatment for their machine tool industries.

The $1.5 billion spent on foreign machine tools was lost to the American economy, and that hurts jobs, taxes, and balance of trade. What's worse, our $1.5 billion was added to the muscle of foreign industry to help it continue to muscle in on our own.

We're feeding the hand that bites us!

America is the most industrialized nation on earth. There is scarcely anything we use, enjoy, benefit from, or even touch in our daily life, work and play, that is not a product or service of industry. Think about it. Without industry, we wouldn't have much but home-made furniture, a log cabin and a garden in the backyard.

That's why machine tools—our special interest—are of special interest to you and the nation.

Machine tools shape or form metal by various means. They make products, molds, and other machines. One out of every five workers are employed by industries that use machine tools.

We're losing vital skilled employees!

Machine tool builders are highly specialized, highly skilled people. When a shop is forced to cut back, these people lose their jobs. That's bad enough. But there's more. Those skilled people find other jobs—and then when America needs machine tools, the skilled workers aren't available to make them.

We welcome competition. But imports are threatening to destroy our industry, and with it the viability of the entire American industrial base and our national security. Since 1971 machine tool imports have exploded from $90 million to $1.5 billion. At this moment, 36% of the machine tools bought by U.S. industry are imported. The implications are alarming for our security and our way of life.

By now it must be plain to every thoughtful reader that a thriving American machine tool industry is absolutely essential to America's well-being.

In the Pentagon and elsewhere, officials are gravely concerned about the plight of the American machine tool industry. Many people in Congress and the administration are working on ways to right the wrongs. They need your help, support, understanding, and encouragement.

Write to your Congressmen, Senators and President Reagan. Write to your newspaper. Speak out. Tell them that a strong American machine tool industry is vital to American defense, security, and industry.

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nmtba

NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION
7901 Westpark Drive, McLean, Virginia 22102

Best Available Copy

EXHIBIT 7

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., April 28, 1982.

The PRESIDENT,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: I am writing this letter to share with you some alarming data concerning the United States machine tool industry, which touches virtually every sector of our economy. This is the industry that builds the machines responsible for America's industrial strength and military preparedness. It is essential that the resiliency and vigor of the American machine tool industry be preserved and indeed, fortified.

But consider the latest machine tool industry import statistics, which provide a very dismal projection of the future viability of the American machine tool industry. In 1981, imports captured a 36 percent share of all machine tools purchased in the United States; for the most technicall advanced and defense sensitive equipment (numerically controlled lathes and machining centers), imports comprised more than 50 percent of all U.S. sales. About 30 percent of the dollars spent on machine tools by American industry in 1981 were spent on foreign machine tools; one out of every seven dollars was spent on Japanese machine tools. During the recent economic recession, orders for U.S. machine tools fell 37 percent, while imports increased at a 14 percent rate.

Last summer during the Trade Subcommittee's visit to Japan, they found the Japanese machine tool industry to be a very strong competitor which has entered into a systematic and determined effort to penetrate and capture the American market. This industry is encouraged and stimulated by years of support by the Japanese government.

We simply cannot permit the industrial might and military preparedness of the United States to become dependent on foreign sources of machine tools—the most basic elements of our entire industrial economy. The alarming data I have outlined to you, however, indicates that this result is certainly within the realm of probability, if actions are not taken to prevent it.

I know you share my belief that these challenges can be met and overcome. Certainly, a concerted and mutual effort on the part of industry, government and labor will be required. That is why the timeliness and importance of this issue has earned it a priority status and demands our mutual attention.

Sincerely,

DAN ROSTENKOWSKI, *Chairman.*

EXHIBIT 8

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C., March 22, 1982.

Hon. CASPAR W. WEINBERGER,
Secretary of Defense, The Pentagon, Washington, D.C.

DEAR SECRETARY WEINBERGER: I wish to bring to your attention a matter of great concern to me involving America's defense preparedness as it relates to our industrial base.

At the present time, the machine tool industry in the United States is faced with a significant increase in imports of machinery from foreign manufacturers. Last year, over one third of all machine tools sold in this country came from overseas. Further, while U.S. machine tool manufacturers experienced a 37 percent decline in business in 1981, imports increased by some 14 percent.

As Chairman of the International Trade Subcommittee in the Senate, the impact of such an increase in imports on the American machine tool industry and our economy in general is extremely worrisome in and of itself. However, in view of this industry's key role as manufacturer of the basic tools that are used in America's defense-related industries, our growing dependence on imports must also be considered in a broader context than that of U.S. trade policy.

To this end, I would appreciate your consideration of the problems faced by America's machine tool industry as it relates to the state of our industrial preparedness.

Best regards.

Sincerely,

JOHN C. DANFORTH.

EXHIBIT 9

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C., February 10, 1982.

The PRESIDENT,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: In recent months I have become concerned about our defense industrial base. As you well know, the United States must remain at the cutting edge of technology in order to offset the numerical edge which our potential adversaries possess.

That is why latest statistics on the machine tool industry are so worrisome to me. Machine tool sales in December were the lowest in five years. Worse still, imports captured a 36 percent share of all machine tools purchased in the United States in 1981, and in the most technically advanced and defense sensitive equipment, numerically controlled lathes and machining centers, imports captured more than 50 percent of all U.S. sales. Clearly, this nation is losing its market leadership in this core industry, one important not only to the revitalization of our industrial plant but key to maintenance of the superiority of our defense industries as well. We simply cannot afford to become overly dependent on foreign sources for these vital products.

Last month, the Commerce department commissioned a study of our nation's technological-industrial base. That is a good beginning. But we must do more than just study this problem. I know that you share my concern about our nation's defense industrial base. I stand ready to join with you in finding solutions to the problems now facing our nation's machine tool industry and look forward to hearing your thoughts on this issue.

With warm personal regards,

Sincerely,

JOHN HEINZ.

EXHIBIT 10

U.S. INTERNATIONAL TRADE COMMISSION,
Washington, D.C., April 7, 1982.

NOTICE OF TERMINATION OF INVESTIGATION NO. 332-138—COMPETITIVE ASSESSMENT OF THE U.S. METALWORKING MACHINE TOOL INDUSTRY

Agency: United States International Trade Commission.
Action: Termination of investigation.

Background: The Commission, on its own motion, instituted, effective February 5, 1982, investigation No. 332-138, under section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)), for the purpose of gathering and presenting information on the competitive position of the U.S. metalworking machine tool industry. This study was to assess the impact of the growing competition from imports on the U.S. metalworking machine tool industry, explore the related development of further competition in the industry's overseas market, and examine the steps that have been taken and may be taken to counteract these developments.

Because of changes in workload and staffing limitations, it is not feasible for the Commission to continue the subject investigation at this time. Therefore, the Commission, on its own motion, has hereby terminated the subject investigation.

Notice of the institution of the investigation was published in the Federal Register of February 18, 1982 (47 F.R. 7350).

By order of the Commission.

KENNETH R. MASON, *Secretary.*

Issued: April 8, 1982.

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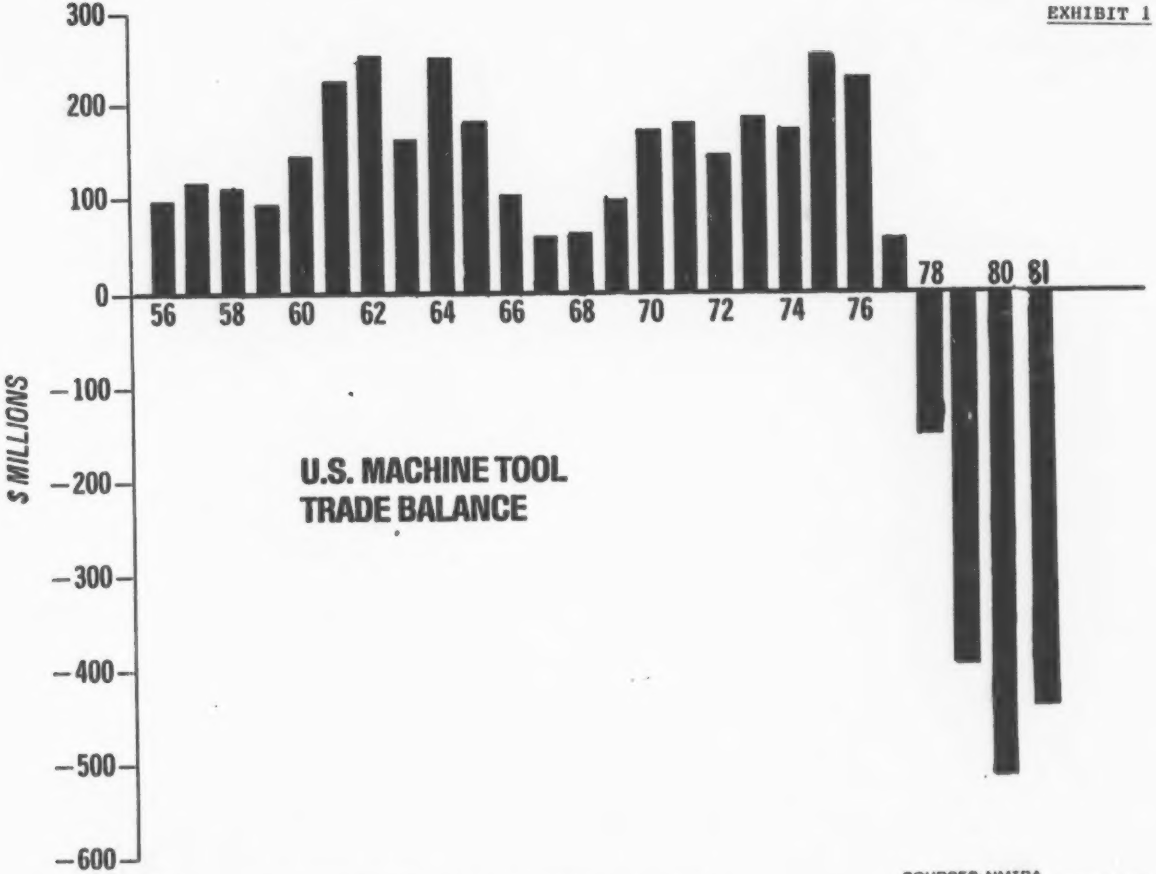
EXHIBIT 1

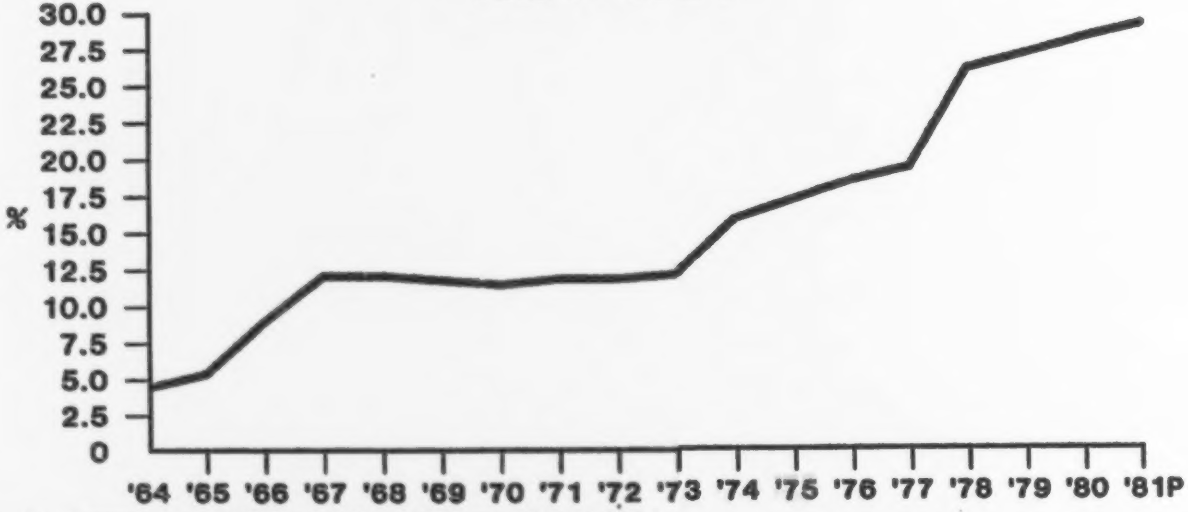


U.S. MACHINE TOOL TRADE BALANCE

Prepared by NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION 2/81

SOURCES: NMTBA
U.S. CENSUS BUREAU

EXHIBIT 2



Imports' Share of U.S.A. Market

(Machine Tool Imports*

% of Total U.S.A. Consumption)

1964-1981

P - Based upon activity for the first 6 months of 1981

*Import values published by Commerce do not include import duties, freight, insurance, dealers' commission and other charges associated with bringing the machine to the United States. Values shown here have been adjusted to reflect such charges.

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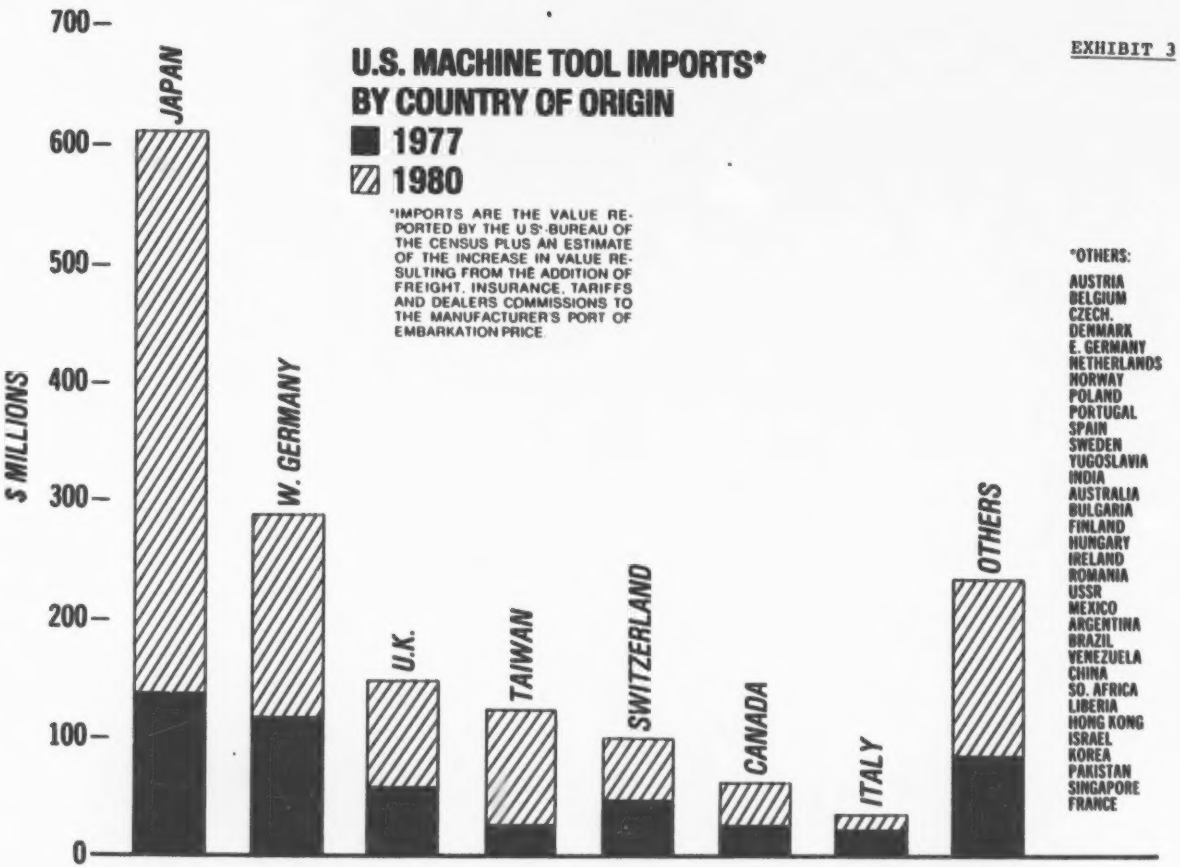
EXHIBIT 3



U.S. MACHINE TOOL IMPORTS*
BY COUNTRY OF ORIGIN

■ 1977
▨ 1980

*IMPORTS ARE THE VALUE REPORTED BY THE U.S. BUREAU OF THE CENSUS PLUS AN ESTIMATE OF THE INCREASE IN VALUE RESULTING FROM THE ADDITION OF FREIGHT, INSURANCE, TARIFFS AND DEALERS COMMISSIONS TO THE MANUFACTURER'S PORT OF EMBARKATION PRICE.

*OTHERS:

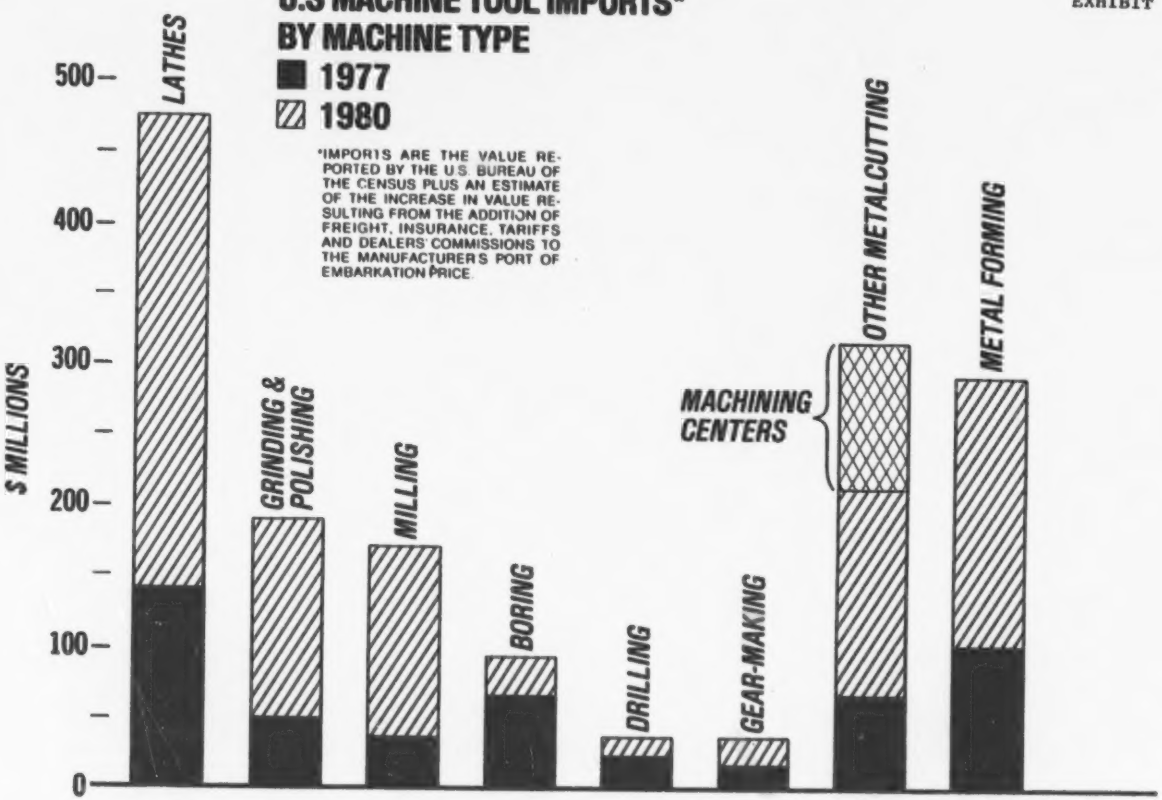
AUSTRIA
BELGIUM
CZECH.
DENMARK
E. GERMANY
NETHERLANDS
NORWAY
POLAND
PORTUGAL
SPAIN
SWEDEN
YUGOSLAVIA
INDIA
AUSTRALIA
BULGARIA
FINLAND
HUNGARY
IRELAND
ROMANIA
USSR
MEXICO
ARGENTINA
BRAZIL
VENEZUELA
CHINA
SO. AFRICA
LIBERIA
HONG KONG
ISRAEL
KOREA
PAKISTAN
SINGAPORE
FRANCE

Prepared by NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION 2/81

SOURCES: NMTBA
U.S. CENSUS BUREAU

Best Available Copy

EXHIBIT 5



U.S MACHINE TOOL IMPORTS* BY MACHINE TYPE

■ 1977
▨ 1980

*IMPORTS ARE THE VALUE REPORTED BY THE U.S. BUREAU OF THE CENSUS PLUS AN ESTIMATE OF THE INCREASE IN VALUE RESULTING FROM THE ADDITION OF FREIGHT, INSURANCE, TARIFFS AND DEALERS' COMMISSIONS TO THE MANUFACTURER'S PORT OF EMBARKATION PRICE.

Prepared by NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION 2/81

SOURCES: NMTBA
U.S. CENSUS BUREAU

Best Available Copy

Robot Institute of America,
Office of the President,
Dearborn, Mich., May 27, 1982.

Mr. John J. Salmon,
Chief Counsel,
Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

Dear Mr. Salmon: We have reviewed your bill directed to promoting export of services and high technology goods.

We suspect that your hearings last Monday, particularly from those people in commercial high technology businesses, reinforce our personal feeling that this bill is positive in nature and duly needed. We support it in its entirety and look forward to providing the support of our company and that of the Robot Institute of America to assist you in having it passed.

Let us know if we can do anything in the future. We would appreciate keeping abreast of its progress.

Yours very truly,

S. J. Polcyn,
President, Robot Institute of America.

U.S. Council for an Open World Economy, Inc.,
Alexandria, Va., May 24, 1982.

Subcommittee on Trade,
Committee on Ways and Means,
U.S. House of Representatives, Washington, D.C.

Gentlemen: The Subcommittee's attention to the important issues of international service transactions and international trade in high-technology products is most commendable, as is the attention given these subjects by many other members of Congress in both houses. However, I do not sense that either these legislators or the Administration or (almost without exception) the "liberal trade" community are realistically assessing the policy imperatives for substantial progress toward freer, more far-reaching trade in these areas of international commerce.

In my view, there is not likely to be much progress in international negotiations to remove impediments in these sectors and establish codes of fully equitable conduct except within the framework of a comprehensive charter to establish a free-trade area on the part of the industrialized countries, with special arrangements for non-discriminatory access to this free-trade area by developing countries. The developing countries, however, would not get a "free ride," for they would be required to make a special set of commitments on reducing barriers, complying with rules of equitable international economic conduct, and providing equitable access to raw materials under their control.

Substantial progress toward free and equitable trade in services and high-technology products is achievable only as part of a strategy for free and equitable trade across the board of all international business dealings. Full reciprocity in these two sectors, respectively, is achievable only in the framework of full reciprocity across the board of all sectors. In turn, fully fair trade across the board is not achievable except as an adjunct of a negotiated commitment to fully free trade in accordance with a realistic timetable. Fully fair trade and fully free trade are one objective indivisible, and hence must constitute one strategy indivisible.

These principles and policy proposals are presented in more detail in (among other places) the testimony I presented to your Subcommittee on March 18, 1982, in oversight hearings on trade policy.

I find that no one in Congress or the Administration, indeed no one outside my Council among advocates of freer world trade, has endorsed these principles and proposals or even revealed active interest in them.

The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall public interest. The Council does not act on behalf of any private interests.

Sincerely yours,

David J. Steinberg, *President.*

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